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TO EXPAND CREDIT FOR CIVIL SERVICE RETIREMENT FOR FORMER MILITARY PERSONNEL WHO ARE CURRENTLY CIVIL SERVICE EMPLOYEES OR RETIREES

HEARING

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 46

TO AMEND TITLE 5 OF THE UNITED STATES CODE TO PERMIT PRESENT AND FORMER CIVILIAN EMPLOYEES OF THE GOVERNMENT TO RECEIVE CIVIL SERVICE ANNUITY CREDIT FOR RETIREMENT PURPOSES FOR PERIODS OF MILITARY SERVICE TO THE UNITED STATES AS WAS COVERED BY SOCIAL SECURITY, REGARDLESS OF ELIGIBILITY FOR SOCIAL SECURITY BENEFITS

MAY 18, 1982

Printed for the use of the Committee on Governmental Affairs

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TO EXPAND CREDIT FOR CIVIL SERVICE RETIREMENT FOR FORMER MILITARY PERSONNEL WHO ARE CURRENTLY CIVIL SERVICE EMPLOYEES OR RETIREES

TUESDAY, MAY 18, 1982

U.S. SENATE,
SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE, AND GENERAL SERVICES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 3302, Dirksen Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Present: Senator Stevens

Staff present: Wayne A. Schley, staff director; Jamie Cowen, chief counsel; Edwin S. Jayne, minority staff director; Pat Halcomb, chief clerk; and Paula Burke.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good morning. We are here to receive testimony on S. 46, a bill designed to correct the "Catch 62" situation. This is the second hearing on this subject for, as many of you know, we had a hearing on this March 17, 1978. We do need updated and current cost estimates as well as a new look at this issue.

"Catch 62" occurs when an individual with military service retires with a civil service retirement pension, using the years of military service for the civilian pension. These military years of service are also covered service for social security benefit purposes.

The problem is that these military years of service cannot be used for both social security and civil service retirement computations. The result is that, at age 62, if an individual is eligible for social security using the military years of service, those years of service must automatically be removed from the computation of the civil service annuity. The additional social security benefit using these years of service often does not match the reduction in the civil service annuity. This reduction usually catches the individual by surprise.

S. 46 would correct the situation by allowing those years of military service to be used simultaneously for both civil service retirement and social security benefits.

The problem with any solution to the "Catch 62" problem has been a question of the cost to the civil service retirement system. I might add that our new pension reform proposal resolves this situation in

large part. Because the new system involves social security, military service will be automatically credited to both systems without increasing the costs.

I hope today we can air the burdens imposed by the "Catch 62" problem and equitable remedies for it.

We are here today to listen to the presentation of the sponsor of the bill, the distinguished President pro tempore, Senator Thurmond.

Senator, I would be happy to hear your statement.

TESTIMONY OF HON. STROM THURMOND, U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you very much, Mr. Chairman.

Mr. Chairman, I want to express my appreciation to you for holding hearings on this bill, S. 46. This bill is designed to relieve an indefensible discrimination against veterans in Public Law 84–881. The present law requires that military service after 1956 not be credited, after age 62, in the computation of annuities for civil service and Postal Service annuitants who are entitled to social security.

S. 46 already has strong support in the Senate. It has 18 cosponsors, including the chairmen of the Senate Armed Services Committee, Senator Tower, and the Senate Veterans' Affairs Committee, Senator Simpson.

The other cosponsors are: Senators Armstrong, Baucus, Bentsen, Burdick, Cannon, Cochran, DeConcini, East, Goldwater, Heflin, Inouye, Matsunaga, Melcher, Sarbanes, Schmitt, and Warner.

Thirty-nine organizations, including many which are not military associations, have advised me of their support of S. 46.

Mr. Chairman, rather than take your time with a detailed analysis of the inequities of the existing situation known as "Catch 62", because of its adverse economic impact on veterans at age 62, I will only summarize the case for my bill.

The details are covered by an enclosure to my statement which I will submit for the record.

Also, I understand that other witnesses will testify in detail on all aspects of the "Catch 62" problem and possible solutions to it.

First, the creation of the "Catch 62" inequity in 1956 was based on a false premise. When Public Law 84–881 was drafted to bring the uniformed services under social security, the Civil Service Commission, now Office of Personnel Management, requested the conference committee to insert a provision that military service could not be credited for civil service annuity computation when the annuitant was entitled to social security.

The Commission's argument was that it was contrary to Government policy to give dual credit for the same employment period for social security and Federal retirement.

Mr. Chairman, this premise is wrong. Career military personnel are given dual credit for social security and military retirement without penalty at age 62. Temporary civil service and Postal Service employees are covered by social security.

When they become permanent employees, they are given dual credit for their temporary employment for social security and civil service annuity computation without penalty at age 62.

All private employment pension systems provide dual credit for social security and private pensions. Social security was always intended to be an addition to other sources of income after retirement.

Only the veteran who goes to work for our Government in a civilian capacity is singled out for this discriminatory penalty.

Second, the Congress has not been consistent in legislating the "Catch 62" policy among agencies. The individual with military service who entered the Foreign Service is not penalized for his military service before 1976. He is exempt from the penalty for 20 more years than such an individual in other agencies. In the Foreign Service, only military service after 1976 is penalized.

In other agencies, military service after 1956 is deleted from annuity credit at age 62 when the annuitant is entitled to social security. Several other agencies have obtained exemptions for their original employees who were transferred into the agencies from social security covered Government employment. These are the Environmental Protection Agency, the Federal Water Pollution Control Administration, and the Consumer Product Safety Commission.

If the "Catch 62" policy is justified, it should be applied equally to all.

Third, civil service and Postal Service employees with military service have been poorly counseled on the "Catch 62" law. Many have retired unaware of the penalty awaiting them at age 62. Many have had drastic cuts in their annuities at age 62 that were completely unexpected. This can be a disaster at that age.

Keep in mind that the annuity reduction takes place whether or not the annuitant can draw the social security for which he or she is eligible.

A large percentage of such annuitants are working, often part time or for low pay, and cannot draw social security.

Fourth, the Office of Personnel Management does not and apparently cannot enforce the "Catch 62" law effectively. Some annuitants who are eligible for annuity reduction at age 62 are identified and their annuities reduced. Others are not identified for many years after their 62d birthday and then forced to make painful reimbursements of overpayments.

Many are never identified, particularly those who finish acquiring eligibility for social security after retirement from Government service. Also, a widow of a deceased annuitant who was subject to "Catch 62" is supposed to have her survivor benefit reduced at the time the annuitant would have reached age 62.

I believe members of this category are never identified, which is fortunate for these affected widows. However, this is merely one more illustration of the random enforcement of the law.

Fifth, it appears certain that eventually there will be some form of offset of social security and Government retirement for those who are entitled to both. Many such proposals have already been made. Senator Stevens, your draft civil service retirement reform bill is one such proposal. It would link social security to a civil service retirement funded by both Government and employee contributions. As I understand it, this proposal would eliminate the "Catch 62" problem only for few employees entering the system.

In the interim, it would do nothing for the million or so current employees and annuitants who are veterans and subject to annuity reductions at age 62. I believe it is essential that the unique "Catch 62" discrimination against military service be removed now, prior to any general linkage of social security and Government retirement.

Otherwise, the annuitant with military service after 1956 could be in double jeopardy. Now, he loses annuity income because he has social security. Under some of the proposals for combining social security and Government retirement, he would also lose social security income because he has an annuity.

Sixth, only 14 percent of more than 1 million veterans in the civil service are military retirees. The vast majority of these retirees are enlisted men who retired from the military around 40 years of age at low retired pay. Some of those with retired military credit experience more than a 30-percent reduction in their annuity at age 62. Social security does not begin to replace the amount of lost income.

Eighty-six percent of the veterans in the civil service subject to "Catch 62" are not military retirees. They have no choice but to count all their Government service in their anuity computations and suffer the "Catch 62" reductions. Their military service varies from 2 years to 18 years.

Mr. Chairman, my seventh and last major point is that the cost of relief of "Catch 62" as proposed in S. 46 was estimated in 1979 by the Congressional Budget Office to be only $7 million in 1983 and $8.4 million in 1984. It will rise in later years as more of the draft-era veterans reach age 62 and then decline as the smaller numbers of post-Vietnam employees with military service retire and reach age 62.

I do not believe cost is a valid argument against my bill. If so, the cost of giving dual credit to some 350,000 former temporary employees is an equally valid argument against giving it to them while it is denied the veteran. If there must be changes in the Government retirement system to lower costs and to offset social security, then the changes should be made across the board. To deny relief of the "Catch 62" inequity simply because it entails some justified costs is grossly unfair to many veterans. At present, low-paid and often dangerous military service is denied annuity credit, while safe, higher paid temporary employment near home and family is given full credit.

Mr. Chairman, I have sponsored measures to solve this problem for more than 6 years. The proposed relief is long overdue. The problem is not going to go away. It will just grow greater as time passes. I urge you to approve S. 46 as the best way to end this unfair treatment of veterans in the civil service.

If you do not agree with my approach, I believe this committee should develop an acceptable solution.

Again, Mr. Chairman, I am grateful to you for scheduling these hearings, and I appreciate the opportunity to testify in behalf of this measure so vital to our veterans.

Mr. Chairman, there are various other witnesses here who will go into details, I am sure, if you wish to go into more detail. My military assistant here, Colonel Cowan, is versed on this.

I have another committee meeting. If you will excuse me, I would like to go to that meeting.

Senator STEVENS. Thank you very much, Senator.

Senator THURMOND. Thank you for your kindness.

[The enclosure to Senator Thurmond's statement follows:]

Enclosure to Senator Thurmond's Statement

CATCH-62, * THE INEQUITABLE TREATMENT OF MILITARY SERVICE IN THE COMPUTATION OF CIVIL SERVICE ANNUITIES AFTER AGE 62

Catch-62 refers to the requirement in PL 84-881 that at age 62 or thereafter most civil service retirees who are veterans lose annuity credit for their military service when they are or later become entitled to social security. All civil service and postal service retirees who are veterans and have combined their military service and civil service for calculation of their civil service annuities, when their social security benefits are due in any part to military service, must accept a recomputation of their annuities, omitting all credit for their military service after 1956.

These annuity reductions take place even though the retiree may not receive social security payments because he is working or would prefer to delay receiving them for higher payments at age 65. Even when social security is received, the annuity losses are frequently far greater than the social security payments. The annuity loss usually averages a little over 3 percent for each year of military service after 1956.

The enforced substitution of a less advantageous civil service annuity when a veteran has properly qualified for an annuity based upon all his government employment and the average of his highest three years' pay was placed in PL 84-881 in 1956 because the Civil Service Commission (now the Office of Personnel Management) took the position that credit for both social security and an annuity for the same years of military service would be a "double credit" in violation of laws which preclude crediting service to two retirement systems at the same time. The fallacy in this objection is that the Social Security System is not a retirement system, and was never so intended. It was originated in 1936 as an old age benefit to keep persons in their declining years from becoming indigent. It was expected that social security recipients would have additional income from part-time work, personal savings and retirement plans. Except for the Catch-62 situation, all social security covered employment, government and private, is credited for both social security and the employer's retirement plan.

In order to qualify for a civil service combined annuity, a veteran entitled to military retired pay must waive all rights to it and accept only the annuity. There is no double credit for the military service; it is counted only for civil service retirement. Military retirees who do not enter the civil service receive both their full retired pay and social security payments based upon the same periods of military service. Temporary federal employees are also simultaneously covered by the Social Security System. Under PL 91-630 temporary employees who acquire permanent employee status and come under the civil service retirement system may credit all their temporary employment for retirement purposes without penalty at age 62 and also retain their social security entitlements based upon their temporary employment. More than 350,000 temporary civil service employees have become permanent employees, and the number is increasing daily. Approximately 45 percent of the 2.9 million civil service and postal service employees have had some military service. Nearly one million, including 345,000 Vietnam veterans, have had service after 1956 and are subject to Catch-62. Only 14 percent of these veterans are military retirees, but all will suffer from Catch-62 when they become eligible for social security.

At present, federal civil service retirees who have had no military service after 1956 do not suffer annuity reductions at age 62 if they are entitled to social security (or at any later age if they become so entitled). The Universal Social Security Study Report estimated that 80 percent of civil service employees will qualify for social security.

*From Joseph Heller's 1959 novel, Catch-22. The term has entered the language meaning a bad situation from which there is no escape.

Unlike the all-military careerist or the all-civil service careerist, the Catch-62 victim is denied retirement income after age 62 based on all his government service just because he transferred from military to civil service.

Civil service annuitants with military service who are reserve retirees under Chapter 67, Title 10 of the U.S. Code do not have to waive reserve retired pay to include their years of active military service in the computation of their annuities prior to age 62. If they are eligible for social security at age 62, their annuities are reduced by Catch-62 just as are the annuities of all others credited with military service after 1956. However, their reserve retired pay based on both active and reserve duty continues unchanged. If they are not entitled to social security, their active military service continues to be credited for both reserve and civil service retirement.

The present law does not penalize veterans who are not eligible for social security, even if they had military service after 1956. But if the veteran, through additional social security covered employment, does complete his coverage to the required number of quarters, his civil service annuity is reduced by denial of credit for his military service subsequent to 1956. The number of quarters required for eligibility varies with date of birth. Persons born in 1934 or later require 40 quarters. Those born earlier need fewer quarters.

The unfairness of the present law and the unevenness of its application is illustrated in the following table:

Annual Incomes at Age 62 for Average Civil Servant
Who Retired at Age 55 and is Entitled to Social Security
(all veterans subject to Catch-62)

	Non-veteran W/Min. Soc. Sec. Income	Veteran W/3 Yrs. Mil. Svc.	Veteran W/10 Yrs. Mil. Svc.	Non-veteran W/20 Yrs. Soc. Sec. Coverage	Veteran W/20 Yrs. Military Service	
					Combined Annuity	Separate Annuities
Annuity	$11,400	$10,180	$7,350	$11,400	$4,400	$ 3,200
Soc. Sec.*	1,900	1,900	1,900	2,900	2,900	2,900
Mil. Ret.	0	0	0	0	0	6,100
Total	$13,300	$12,080	$9,250	$14,300	$7,300	$12,200

*Typical low-level social security entitlements of civil service annuitants and 20-year military retirees (workers only).

Note that the non-veteran annuitant entitled to social security, as most are, is better off than the veteran after age 62. Repeal of Catch-62 will only bring the veteran up to the income of the non-veteran, not above it.

Obviously, waiving military retired pay for a combined annuity is not an attractive option for most military retirees with 10 or more years of military service after 1956. The alternative, unfortunately, is to keep a low military retired pay and accept a very low civil service annuity based on the low multiples for the first 10 years of civil service. This is contrary to the basic government policy that retirement be based on all government service and the higher income attained at the end of one's career. The most unfortunate veterans are those who have long periods of military service (up to 19 years) but did not qualify for military retirement before entering the civil service. Eighty-six percent of the

veterans in the civil service subject to Catch-62 are not military retirees. They have no choice but to count all their government service in their annuity computations and suffer the Catch-62 reductions. Their credits for social security are partially based on low incomes in the military service, and their social security entitlements at age 62 usually are very small.

If he is working again, the veteran may not actually receive the social security benefits for which he has been penalized. He may not reinstate military retired pay for the years in question, and his civil service annuity credits will, as a further injury, be cut from the maximum credit years (2 percent per year), leaving him the lowest multiples (1.5 and 1.75 percent, respectively, for the first and second 5 years). Note: An exception is made for military retirees who did not need to include their military service to be eligible for civil service retirement at the time they retired, and waived military retired pay only to increase their annuities. At age 62 they may reinstate their retired pay and accept an annuity based only on their civil service employment.

Many civil service retirees with military service were forced to take a combined retirement to qualify for immediate retirement income. Some military retirees had to take a combined civil service retirement to qualify their families for adequate survivor benefits. The military Survivor Benefit Plan was not provided to the uniformed services until September 21, 1972.

A widow's benefit (the survivor's benefit) is calculated at 55 percent of the annuity of her sponsor. If he dies before reaching his 62nd birthday, on the date he would have reached it her benefit is reduced to 55 percent of what his reduced annuity would have been at 62 had he lived. This takes place although her dead husband paid annuity for an unreduced benefit.

While the greatest inequity is the allowance of dual credit for social security covered temporary federal employment while denying it for social security covered military service, as cited above, there are further inequities. Some agencies have obtained exceptions for all or part of their employees who are veterans. The Foreign Service obtained a 20-year exemption for veterans under its retirement system and will penalize only those with military service after 1976. The Environmental Protection Agency, the Federal Water Pollution Control Administration and the Consumer Product Safety Commission obtained exemptions for many of their original employees when those agencies were created. In fairness, the policy should be the same for all.

To make the situation even more unfair, enforcement of PL 84-881 is inexact, and many individuals to whom Catch-62 should apply are not identified and their annuities are not reduced at age 62. Those who have waived military retired pay to include their military service in annuity computations are more readily identified and their annuities reduced. Many thousands of annuitants with less than 20 years of military service counted in their annuity computations escape the legally required reductions at age 62 entirely. They are particularly likely to escape detection when they do not apply for social security or when their military service alone is insufficient to qualify them for social security and is combined with other covered employment subsequent to civil service retirement to qualify for social security benefits.

The President's Commission of Military Compensation urged the Administration and the Congress on April 10, 1978 to resolve the Catch-62 problem expeditiously. Bills for this purpose were introduced in the Senate and the House in both the 95th and 96th Congresses. No action was taken by the 95th Congress because the Administration did not respond to repeated committee requests for positions on the bills, and no hearings were held. The bills were reintroduced in the 97th Congress. Senator Thurmond's bill,

S. 46, has 17 cosponsors. Representative Charles E. Bennett's bill in the House, H.R. 116, has 54 cosponsors. These bills also have the support of 39 military, veteran, and civil service organizations (see listing below).

There have been several proposals in recent years that there be an offset of social security and government retirement for individuals who have both. None have been acted upon by the Congress as yet, but it appears inevitable that some such proposal eventually be adopted. This could result in the Catch-62 victim's suffering an additional income reduction. Under some proposals he would not only have the Catch-62 reduction of his annuity because he is eligible for social security, but he would also have his social security reduced because he has an annuity.

There is no practicable solution for the Catch-62 problem other than removing it entirely as proposed in S. 46 and H.R. 116. Only by this approach can an equitable relationship be established between social security and federal retirement systems in the future that will not penalize the veteran in civil service.

The following organizations support S. 46 and H.R. 116:

National Association for Uniformed Services
Veterans of Foreign Wars
The American Legion
American Federation of Government Employees
National Federation of Federal Employees
National Treasury Employees' Union
American Association of Retired Persons
National Retired Teachers' Association
The Retired Officers' Association
Reserve Officers' Association
Fleet Reserve Association
Naval Reserve Association
National Association of Retired Federal Employees
Air Force Association
Disabled American Veterans
Air Force Sergeants' Association
Marine Corps League
Marine Corps Reserve Officers' Association
Blinded Veterans' Association
Paralyzed Veterans of America
Organization of Professional Employees/Dept. of Agriculture
National Association of Federal/State Employees
National Association of Rural Letter Carriers
Jewish War Veterans
Legion of Valor
Regular Veterans' Association
Retreads
Non Commissioned Officers' Association
National Association of Letter Carriers
American Postal Workers Union, AFL-CIO
Military Order of Purple Heart
U.S. Army Warrant Officers' Association
Chief Warrant and Warrant Officers' Association, USCG
National Association of Concerned Veterans
Federal Managers' Association (formerly Nat'l Assoc. of Supervisors)
AMVETS
Polish Legion of American Veterans, USA
Naval Enlisted Reserve Association
Law Enforcement Officers' Association

Senator STEVENS. Congressman Bennett.

TESTIMONY OF HON. CHARLES E. BENNETT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Representative BENNETT. Mr. Chairman, I feel like the fine Senator who has just spoken. It is a very deep privilege to speak before your committee. I am grateful for all the fine things you have done over here.

Senator STEVENS. We are happy to have you here, sir. It is a pleasure to have you here.

Representative BENNETT. Mr. Chairman, thank you for the opportunity to appear before your distinguished subcommittee today in support of Senator Thurmond's bill to end the inequity of "Catch 62", S. 46. I have introduced essentially the same legislation in the House in the 95th, 96th, and 97th Congresses. My current bill, H.R. 116, has 54 cosponsors in the House.

No action was taken on my previous bills for basically the same reason that no action was taken on Senator Thurmond's similar bills—the executive agencies failed to respond to requests for positions from the House Post Office and Civil Service Committee. I now have a tentative commitment from Chairman Mary Rose Oakar of the Subcommittee on Compensation and Employee Benefits to hold hearings in July, and I am hopeful that executive comments will be forthcoming before that time.

Senator Thurmond's testimony and his supporting statement for the record cover all the important arguments for early relief under "Catch 62", the inequity as proposed in S. 46 and H.R. 116. There is no need for me to repeat them. Just let the record show that they also fully represent my own views.

I believe it is particularly fortunate that you are holding hearings on S. 46 at this time. It makes it possible for you to put questions to the various executive agencies involved with S. 46 in time to have their answers and recommendations available by the time hearings are held on H.R. 116.

If your subcommittee is not satisfied with S. 46 as drafted, I urge that you request the necessary information and recommendations from the administration to develop an equitable acceptable proposal prior to July. Certainly, the "Catch 62" discrimination against military service in the computation of civil service annuities should no longer be allowed to continue.

That is so dramatically pointed out by the Senator. If it is concluded that something is wrong about the policy of this bill, then we are certainly doing great inequity in the discrimination in favor of other employees, just because they don't happen to be veterans. That certainly is not something that should be allowed to continue.

I think that the equitable and proper way to handle this matter is the way in which he has suggested. Otherwise, these men arrive at a time in their lives when they are least able to care for themselves and tragically have no retirement income.

Thank you, Mr. Chairman, for allowing me to be here.

Senator STEVENS. Thank you, sir.

We appreciate your being here and your support for Senator Thurmond's bill.

Representative BENNETT. Thank you, sir. I am sorry I haven't been able to come here before. I remember the help you have given me previously.

Senator STEVENS. Next, we will have Mr. Morrison, Mr. Amis, and Ms. Kleeman.

We do appreciate Congressman Bennett's brevity, because we have two other meetings starting this morning. I am going to have to go to them. I hope you will concur. We will print your statements in the record.

TESTIMONY OF JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR FOR COMPENSATION, OFFICE OF PERSONNEL MANAGEMENT; WILLIAM R. AMIS, ASSISTANT DIRECTOR FOR COMPENSATION, OFFICE OF DEPUTY ASSISTANT SECRETARY FOR MILITARY PERSONNEL AND FORCE MANAGEMENT, OFFICE OF ASSISTANT SECRETARY FOR MANPOWER, RESERVE AFFAIRS AND LOGISTICS, DEPARTMENT OF DEFENSE; MS. ROSSLYN S. KLEEMAN, ASSOCIATE DIRECTOR, FEDERAL PERSONNEL AND COMPENSATION DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY THOMAS EICKMEYER, GROUP DIRECTOR, FEDERAL PERSONNEL AND COMPENSATION DIVISION, GAO

Senator STEVENS. I have read your statements and I will ask you a couple of questions.

Is that all right?

Mr. AMIS. No objection.

Senator STEVENS. In the first place, Mr. Morrison, you state that—

> The question of whether Federal employees should be covered under Social Security is now being reviewed by the National Commission on Social Security Reform, and we believe that a decision on this fundamental question must be reached before we can proceed to consider such related questions as whether some changes should be made in "Catch 62."

My question to you is. I didn't understand that the National Commission was dealing with "Catch 62" questions at all. I thought they were dealing with the whole question of the extent to which Federal employees should be in social security or out of social security and which direction we should take as a general appropriation.

My pension reform bill would put them in. There are other proposals that would take them out and forbid them from getting social security.

Are you telling us that the "Catch 62" question is specifically under review by the Commission?

Mr. MORRISON. No, sir, I am not.

What I am suggesting is that the framework that would be laid out by the Commission is the proper framework in which we ought to consider the specific question of "Catch 62."

I think your bill, as you mentioned, and other proposals that would, first of all, give us a rational framework for dealing with the interrelationship of civil service retirement and social security are the things

we ought to attempt first before we attempt more patchwork kinds of solutions to this rather complex problem.

Senator STEVENS. Thank you.

Mr. Amis, forgive me if I say so, but I don't see where you have taken a position in your statement.

Mr. AMIS. Mr. Chairman, the Department defers to the Office of Personnel Management as representing the administration's position on this bill. As you know, the matter basically deals with the treatment of military people under the civil service retirement system. That being the case, OPM becomes the lead agency in expressing the views of the administration.

Senator STEVENS. Neither one of you has any real indication of what the out-year costs are as far as the bill. Attached to Ms. Kleeman's statement is an estimated additional civil service retirement cost under S. 46. I have got to tell you, I don't quite understand that in terms of what is the cost.

Does that indicate that through the year 2006, the civil service retirement cost is going to be $7.9 billion, is that right?

Ms. KLEEMAN. Yes.

Mr. AMIS. That is right.

Senator STEVENS. In the next column, in addition to that, the $4 billion?

Mr. AMIS. Yes.

Ms. KLEEMAN. That would be under a GAO proposal, an alternative proposal that we have submitted, the $4 billion.

Senator STEVENS. Then do you add the three columns under the GAO proposal—the $4 billion, the $2.5 and the $1.5 are added together?

Ms. KLEEMAN. No. One would be a minus. Our alternative would increase the civil service retirement costs by $4 billion; reduce the social security benefits by $2.5 billion, resulting in a net cost of $1.5 billion.

Senator STEVENS. I see.

Ms. KLEEMAN. In comparison, we estimate that over the same period of time, S. 46 would cost about $7.9 billion.

Senator STEVENS. Has OPM looked at the GAO figures concerning the $7.9 billion cost on S. 46?

Mr. MORRISON. They are reasonably close, Senator. I just looked at them this morning. There is some variance. I would like to have our actuaries get together with their actuaries to make sure about the set of assumptions there.

My estimate was a figure in the range of $300 million to $700 million annually in those out-years. That is about a $7 billion total cost. So we are close, but I see that they are not exactly the same. I don't know what the different set of assumptions are that our actuaries may have used.

Senator STEVENS. Has OPM reviewed the GAO proposal before this? Is your position that we ought to wait on the Commission to comply to the GAO proposal as well as S. 46?

Mr. MORRISON. Yes, sir. The proposal that GAO is advancing today, as I understand it, is identical to the proposal advanced on S. 92 in the 96th Congress.

We still believe that the preferable course is to have the total framework laid out and set forth in terms of what is to be the relationship of civil service retirement and social security before we proceed to try to resolve what is admittedly a very complex situation.

Ms. KLEEMAN. I have our actuary here, if you would like to have him give you some details on this proposal.

Senator STEVENS. The problem I have with it is that the GAO proposal assumes that we could put it into effect immediately; I don't know when you round the numbers, but I assume that this couldn't go into effect before fiscal 1983 if we got the bill passed before the House and signed by the President, but this picks up in 1982.

Ms. KLEEMAN. We have calculated the amount over the years.

Senator STEVENS. Are you saying that, first, your costs would be the same but it would start in 1983 rather than 1982?

Mr. EICKMEYER. A savings to the veteran, if you start in 1982. The sooner that an alternative to the present condition is enacted, there will be savings to the veterans that are being affected by it today.

Senator STEVENS. I understand that. It is not fiscally possible to get this bill passed and implemented before October the way I see it. Even if we passed it today, it wouldn't be implemented until October.

Ms. KLEEMAN. It could be made retroactive, or we could move these forward.

Senator STEVENS. All right. I am sorry to tell you that because of the passage of time, we will print your statements completely in the record and I hope you will excuse me but I have got to get to a markup. I do want to get to the next panel.

I thank you for your contribution.

[The prepared statements of Mr. Morrison, Mr. Amis, and Ms. Kleeman, with attachments, follow. Responses to written questions submitted by Senator Stevens to Mr. Morrison and Mr. Amis also follow:]

STATEMENT OF JAMES W. MORRISON, JR.
ASSOCIATE DIRECTOR FOR COMPENSATION
OFFICE OF PERSONNEL MANAGEMENT

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ON

S. 46

MAY 18, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR THIS MORNING TO DISCUSS S. 46, A BILL WHICH WOULD ALLOW INDIVIDUALS TO RECEIVE BOTH SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT BENEFITS BASED ON THE SAME PERIODS OF MILITARY SERVICE.

CURRENTLY, THE CIVIL SERVICE RETIREMENT LAW SECTION 8332(j) OF TITLE 5, UNITED STATES CODE, PROVIDES THAT, WHEN A CIVIL SERVICE ANNUITANT REACHES AGE 62 AND BECOMES ELIGIBLE FOR SOCIAL SECURITY, HIS CIVIL SERVICE ANNUITY MUST BE RECOMPUTED TO EXCLUDE ANY CREDIT FOR POST-1956 MILITARY SERVICE. THIS PROVISION, WHICH HAS COME TO BE KNOWN AS "CATCH-62," WAS ENACTED IN 1956. THE LAW EXTENDED SOCIAL SECURITY COVERAGE TO MILITARY SERVICE, AND AT THE SAME TIME BARRED CIVIL SERVICE RETIREMENT CREDIT FOR MILITARY SERVICE AT THE POINT WHEN THAT SERVICE BEGINS TO PROVIDE A SOCIAL SECURITY BENEFIT.

UNDER THIS LAW, WHEN AN EMPLOYEE WHO IS UNDER THE CIVIL SERVICE RETIREMENT SYSTEM AND IS UNDER 62 IS READY TO RETIRE, HE RECEIVES CREDIT FOR ANY

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MILITARY SERVICE, BOTH IN DETERMINING WHETHER HE HAS SUFFICIENT SERVICE TO QUALIFY FOR AN ANNUITY AND IN COMPUTING THE AMOUNT OF HIS ANNUITY. HOWEVER, WHEN HE REACHES AGE 62, THE CIVIL SERVICE ANNUITY MUST BE RECOMPUTED TO EXCLUDE THAT FRACTION OF THE ANNUITY THAT IS ATTRIBUTABLE TO POST-1956 MILITARY SERVICE. OF COURSE, THE SIZE OF THE REDUCTION IN THE CIVIL SERVICE RETIREMENT BENEFITS VARIES ACCORDING TO THE AMOUNT OF POST-1956 MILITARY SERVICE USED IN THE ORIGINAL CALCULATION OF THE ANNUITY.

THIS LAW HAS A SOMEWHAT DIFFERENT IMPACT ON THREE DIFFERENT GROUPS OF EMPLOYEES: RETIRED MILITARY PERSONNEL; INDIVIDUALS RETIRED UNDER THE RESERVE RETIREMENT SYSTEM AND CERTAIN MILITARY DISABILITY RETIREES; AND FINALLY, PERSONS WITH ONLY BRIEF PERIODS OF MILITARY SERVICE.

THE IMPACT OF THIS LAW IS GREATEST FOR REGULAR RETIRED MILITARY PERSONNEL WHO HAVE 20 OR MORE YEARS OF POST-1956 MILITARY SERVICE AND WHO QUALIFY FOR SOCIAL SECURITY BENEFITS ON THE BASIS OF THAT SERVICE ALONE. FOR THESE INDIVIDUALS, THE REDUCTION IN THEIR CIVIL SERVICE ANUITY WILL EXCEED THE SOCIAL SECURITY BENEFITS TO WHICH THEY WILL BECOME ENTITLED AT AGE 62, AND "CATCH-62" THEREFORE ACTUALLY REDUCES THEIR INCOME. HOWEVER, THESE INDIVIDUALS CAN AVOID "CATCH-62" ENTIRELY, SINCE A MILITARY RETIREE WHO SUBSEQUENTLY ENTERS FEDERAL CIVILIAN EMPLOYMENT HAS THE CHOICE OF EITHER CONTINUING TO RECEIVE HIS MILITARY RETIRED PAY, AND NOT COUNTING THE MILITARY SERVICE TOWARD A CIVIL SERVICE ANNUITY, OR WAIVING MILITARY RETIRED PAY AND ELECTING TO CREDIT HIS YEARS OF MILITARY SERVICE TOWARDS THE CIVIL SERVICE ANNUITY. IF HE CHOOSES TO COMBINE MILITARY AND CIVILIAN SERVICE IN THIS WAY, THE INDIVIDUAL IS LIKELY TO BE ABLE TO RETIRE FROM

CIVILIAN EMPLOYMENT EARLIER THAN OTHERWISE AND WILL RECEIVE A RELATIVELY LARGE CIVIL SERVICE ANNUITY UNTIL AGE 62, BUT AT THAT POINT THE ANNUITY IS SUBSTANTIALLY REDUCED BECAUSE OF "CATCH-62." HOWEVER, THE INDIVIDUAL HAS THE OPTION OF AVOIDING THIS REDUCTION ENTIRELY, IF HE CHOOSES TO CONTINUE RECEIVING MILITARY RETIRED PAY, RETIRES FROM HIS CIVILIAN JOB LATER, AND RECEIVES A CIVIL SERVICE ANNUITY BASED UPON CIVILIAN SERVICE ALONE.

A SECOND GROUP IS MADE UP OF INDIVIDUALS WHO HAVE RETIRED UNDER THE RESERVE RETIREMENT SYSTEM, AND ALSO INCLUDES CERTAIN MILITARY DISABILITY RETIREES. THESE INDIVIDUALS ARE IN A DIFFERENT SITUATION BECAUSE THEY ARE NOT REQUIRED TO WAIVE MILITARY RETIRED PAY IN ORDER TO INCLUDE MILITARY SERVICE IN THE CALCULATION OF THEIR CIVIL SERVICE ANNUITIES. THAT IS, THESE INDIVIDUALS MAY RECEIVE BOTH A FULL CIVIL SERVICE ANNUITY AND FULL MILITARY RETIRED PAY, BASED IN PART ON THE SAME YEARS OF SERVICE. AT AGE 62, THE CIVIL SERVICE ANNUITY IS RECOMPUTED TO EXCLUDE POST-1956 MILITARY SERVICE, BUT THE MILITARY RETIRED PAY CONTINUES WITHOUT CHANGE, AND THEY BECOME ELIGIBLE FOR SOCIAL SECURITY BENEFITS AS WELL, ON THE BASIS OF THE POST-1956 SERVICE.

THE THIRD AND LARGEST GROUP OF INDIVIDUALS AFFECTED BY THE PRESENT LAW CONSISTS OF THOSE INDIVIDUALS WHO HAVE ONLY A FEW YEARS OF MILITARY SERVICE, BUT HAVE ENOUGH NON-FEDERAL EMPLOYMENT TO BE ELIGIBLE FOR SOCIAL SECURITY BENEFITS. THE CIVIL SERVICE ANNUITIES OF THESE INDIVIDUALS WILL BE RECALCULATED AT AGE 62 TO EXCLUDE CREDIT FOR THEIR BRIEF MILITARY SERVICE. HOWEVER, THIS ANNUITY REDUCTION WILL BE OFFSET, AT LEAST IN PART, BY SOCIAL SECURITY BENEFITS IF THE INDIVIDUALS ELECT TO DRAW SOCIAL SECURITY

AT AGE 62. MOREOVER, SOCIAL SECURITY BENEFITS ARE NON-TAXABLE, WHEREAS CIVIL SERVICE ANNUITIES ARE TAXABLE AFTER THE INDIVIDUAL HAS RECOUPED HIS OR HER CONTRIBUTIONS. THEREFORE, THE REDUCTION IN TOTAL NET RETIREMENT INCOME AT AGE 62 WILL BE NONEXISTENT OR RELATIVELY SMALL IN MOST CASES.

S. 46 WOULD ALTER THIS SITUATION BY ELIMINATING THE REDUCTION IN THE CIVIL SERVICE ANNUITY AT AGE 62. UNDER S. 46, EVEN AFTER AN INDIVIDUAL BECAME ELIGIBLE FOR SOCIAL SECURITY BENEFITS BASED IN WHOLE OR IN PART ON POST-1956 MILITARY SERVICE, HE COULD CONTINUE TO RECEIVE CIVIL SERVICE RETIREMENT CREDIT FOR THE SAME MILITARY SERVICE.

ENACTMENT OF S. 46 WOULD PROVIDE THE GREATEST INCREASES IN INDIVIDUAL ANNUITIES TO THE FIRST OF THESE THREE GROUPS, THE RETIRED MILITARY PERSONNEL WHO SUBSEQUENTLY ENTER FEDERAL CIVILIAN EMPLOYMENT AND WHO HAVE THE OPTION UNDER PRESENT LAW OF AVOIDING THE EFFECTS OF "CATCH-62." S. 46 WOULD PROVIDE MUCH SMALLER INCREASES IN THE ANNUITIES OF THE THIRD GROUP, THOSE WITH ONLY A FEW YEARS OF MILITARY SERVICE. HOWEVER, SINCE THERE ARE SO MANY IN THIS THIRD GROUP, THEY WOULD ACCOUNT FOR MUCH OF THE TOTAL COST OF THE BILL. WE ESTIMATE THAT S. 46 WOULD INCREASE THE COST OF THE CIVIL SERVICE RETIREMENT SYSTEM BY $300 MILLION TO $700 MILLION ANNUALLY, IN CURRENT DOLLARS, AFTER A PROLONGED TRANSITION PERIOD. IN VIEW OF THIS COST, THE ADMINISTRATION MUST OPPOSE S. 46, PARTICULARLY IN THE PERIOD OF FISCAL RESTRAINT.

OUR OPPOSITION TO THIS PARTICULAR BILL, HOWEVER, DOES NOT MEAN THAT WE ARE UNSYMPATHETIC TO THE CONCERNS OF THE AFFECTED INDIVIDUALS OVER "CATCH-62." "CATCH-62" IS ONE OF A NUMBER OF DIFFICULT AND COMPLEX

ISSUES THAT ARISE FROM THE RELATIONSHIP BETWEEN SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT. THE QUESTION OF WHETHER FEDERAL EMPLOYEES SHOULD BE COVERED UNDER SOCIAL SECURITY IS NOW BEING REVIEWED BY THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM, AND WE BELIEVE THAT A DECISION ON THIS FUNDAMENTAL QUESTION MUST BE REACHED BEFORE WE CAN PROCEED TO CONSIDER SUCH RELATED QUESTIONS AS WHETHER SOME CHANGE SHOULD BE MADE IN "CATCH-62."

THANK YOU VERY MUCH. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

MR. MORRISON'S RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR STEVENS REGARDING "CATCH 62"

1. Q. What is your current projection of the annual cost, in 1982 dollars, of transferring military service to the civil service system for retirement purposes? Please project these figures into the future on a yearly and cumulative basis and include as a separate amount the yearly amount to be saved in waived military retired pay. Will these figures vary from past OPM or (CSC) cost projections? If so, please explain the differences.

A. Based on Budget projections and trends in actual military service payments in recent years, we estimate future military service payments (in 1982 dollars) to be as follows:

Fiscal Year	Yearly	Cumulative
Fiscal Year 1982	$1,460 million	$ 1,460 million
Fiscal Year 1983	1,575 million	3,035 million
Fiscal Year 1984	1,690 million	4,725 million
Fiscal Year 1985	1,793 million	6,518 million
Fiscal Year 1986	1,896 million	8,414 million
Fiscal Year 1987	1,998 million	10,412 million

However, we are unable to ascertain the amount which was credited through transfer as a result of a waiver of military retired pay. Further, even if such information were available, the amount of military retired pay saved would have to be determined by the Department of Defense rather than OPM.

2. Q. I understand there are about one-third as many civil service and Postal Service employees who have had Social Security covered temporary civil service employment as there are veterans who have had Social Security covered military service. Explain fully the similarities and differences in treatment between veterans and temporary civil service employees for retirement purposes.

A. Temporary Federal civilian service which, because of the type of appointment, places an employee under Social Security is credited for Civil Service Retirement purposes if the employee later becomes subject to the Retirement System. Such credit is unaffected under current law by the employee receiving, or being entitled to receive Social Security benefits.

Military service is similarly creditable for Civil Service Retirement purposes, but only if the employee has sufficient civilian service to acquire a vested benefit (5 years). However, credit is not granted for military service for which the individual is awarded military retired pay unless the retired pay is based on certain service-connected disabilities, is granted to a member of a reserve component of the armed forces, or is waived. Even if periods of military service performed after December 31, 1956, are initially credited, they must be excluded from the annuity computation for subsequent payments at the time the employee becomes entitled to Social Security benefits.

3. Q. What would be the cost of a compromise by which annuitants subject to "Catch-62" would have their annuities reduced only by a dollar amount equal to the portion of their social security payments attributable to military service? What would be the offsetting savings of the estimated cost if the same policy were applied to temporary civil service employment? This policy is already established for military Survivor Benefit Plan payments. The Social Security Administration has suggested the following simple formula for determining the offset:

$$\text{Actual Social Security Benefit} \times \frac{\$ \text{ credits for post-1956 military service}}{\text{Total } \$ \text{ Social Security credits}}$$

A. We do not have any data on the Social Security benefits attributable to post-1956 military service. However, a very rough estimate is about $50 (expressed in 1982 dollars) per individual, per month, assuming three years of military service.

If only this amount were deducted from the retirement benefits for appropriate individuals, the cost of repeal of "Catch-62" (shown on the attached table) would be reduced by at least 50 percent. There would be some additional savings if the same policy were applied to Social Security credits earned by temporary Federal employees, but we have no estimate of the amount of these savings.

4. Q. It has been reported by GAO in the past that there was a need for a more reliable method of identifying annuitants subject to all the recomputation of annuity based on post 1957 military service. It was reported that long delays in identification were common and that, in some instances, others were never identified. Can you offer some comments on the current and future status of the identification system?

A. The annuity roll now has an identifier that indicates whether post-1956 military service is involved in each retirement case. The appropriate notation is made at the time each new claim is processed. Previously, a card was prepared and sent to our Records Center to "flag" a case to be pulled for recomputation at the appropriate time. Nearly all of these "flag cards" have now been entered into the automated annuity roll. The next step will be to produce a monthly listing of annuitants who are within 3 months of attaining age 62 and who have post-1956 military service. That will facilitate our determining, in cooperation with the Social Security Administration (SSA), whether these annuitants are entitled to Social Security benefits.

Rather than preparing a form requesting verification of entitlement, we hope to be able eventually to forward a computer tape and receive a tape back indicating entitlement. Also, as an additional safeguard, SSA is now entering these annuitants' claim numbers in their Master Beneficiary Record file. This will alert their personnel to contact OPM if one of these annuitants applies for benefits.

5. Q. The Civil Service Retirement Fund bills the U.S. Treasury annually for the cost of annuity payments attributable to military service. Are the "Catch-62" savings credited to the U.S. Treasury or do they accumulate for the Retirement Fund? I understand that the annual bill to the Treasury is based on the cumulative total of man-years of military service in annuity computations calculated only at the time of retirement. Is there an adjustment for the man-years of military service later removed by "Catch-62"? Do the "Catch-62 savings accrue to the U.S. Treasury or to the Retirement Fund?

A. The amount determined by OPM under section 8348(g) of title 5, United States Code, to represent the disbursement for annuities attributable to credit allowed for military service in a given year is computed on the basis of a one percent sample of the annuity roll. Cases, including those within the sample, which have been reissued after a "Catch-62" recomputation, have been changed to reflect the removal of post-1956 military service from both the military service and total service categories. Thus, the savings resulting from "Catch-62" recomputations are effectively credited to the Treasury of the United States by the exclusion of benefits which are based on "Catch-62" military service and which are no longer paid from the amount which OPM bills the Secretary of the Treasury.

Attachment

Increase in Outlays for Repeal of Catch-62

(Amounts in millions in 1982 dollars)

Year	1 Year Military Service [1]	3 Years Military Service [2]
1982	0	0
1983	0	0
1984	0	0
1985	0	0
1986	0	0
1987	0	0
1988	0	4
1989	0	11
1990	0	21
1991	0	34
1992	1	52
1993	4	76
1994	8	104
1995	14	136
1996	22	172
1997	31	212
1998	43	252
1999	57	292
2000	74	332
2001	92	371
2002	112	410
2003	133	448
2004	155	486
2005	180	527
2006	205	568
2007	230	606
2008	255	645
2009	286	692
2010	317	739
Total for 30 Years	$2,219	$7,190

1/ In our annual valuations of the Civil Service Retirement System, we currently assume one year of post-1956 military service for current male employees born after 1939, and no such service if they were born before 1929, with a phase-in for the intervening years. The assumption of one year of post-1956 military service is equivalent to an assumption of about 1.5 years of such service for the 66 percent of male employees who have military service.

2/ A more conservative assumption would be three years of post-1956 military service for all male employees born after 1935, with a phase-in for male employees born between 1925 and 1935.

STATEMENT OF

WILLIAM R. AMIS

ASSISTANT DIRECTOR OF COMPENSATION

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
(Manpower, Reserve Affairs and Logistics)

Mr. Chairman and Members of the Committee:

I am William R. Amis, Assistant Director of Compensation, from the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics). I appreciate the opportunity of appearing before the Committee to share with you the Department's views on S.46, a bill that addresses the creditation of military service for civil service pension purposes and for social security benefits.

My colleagues from the Office of Personnel Management have presented the Administration's position on this bill, and we defer to that position. By way of background, I would like to highlight briefly some points relevant to this legislation.

Military service has been creditable under the civil service retirement system both for establishing eligibility for retirement, and in computing retirement benefits, since enactment of the original Civil Service Retirement Act on May 22, 1920. The Servicemen's and Veterans Survivor Benefits Act, Pub. L. 84-881, provided that active military service on or after January 1, 1957, was "covered employment" under the social security system. Thereafter, military personnel paid the social security contributions and became eligible for social security benefits computed on their lifetime covered earnings. The latter Act also provided that if and when an individual or his survivor became eligible for a social security benefit based on his military service after December 31, 1956, he or she could not credit that military service under any other Federal retirement system.

Under present law, a military member who after separation from military service is employed in the civil service may credit, until age 62, his military years of service in determining eligibility for, and the amount of, a civil service retirement annuity. Similarly, a military retiree who becomes employed in the civil service may waive his military retired pay and credit the years of military service for civil service retirement purposes. However, at age 62, when such an individual first becomes eligible for a social security annuity, his military years of service after 1956 are dropped from the civil service computation. The result of this action can be a decrease in total retired pay at age 62 since the amount of social security entitlement may be less than the loss in civil service retired pay.

There are three general categories of individuals to whom this situation applies: (1) veterans, (2) military retirees from active service, and (3) retired reservists.

The veteran who has short periods of military service may credit that service for civil service retirement purposes to establish eligibility and to compute the pension. At age 62, if and when a veteran becomes entitled to social security benefits, the military years of service after 1956 are removed from the civil annuity computation and the annuity is recalculated. It makes no difference whether the social security benefit is based wholly or in part on military service.

A retiree from active service may also credit military service for eligibility and annuity computation purposes. If the member makes this determination, military retired pay must

be waived in its entirety. At age 62, the civil service annuity is recalculated to remove post-1956 military service, if the military retiree is entitled to social security benefits at that time. The waiver of military retired pay cannot be revoked at that time, unless the military member would have been eligible to retire from under the civil service system based solely on civil service time.

The third category, retired reservists, has the law applied in a similar manner. At age 62, their civil service pension is recalculated, excluding post-1956 military years of service. Since there is no waiver of military retired pay involved for this category of personnel, that entitlement is not interrupted.

For each of the three categories, there is a reduction in the civil service annuity. The degree of the reduction varies by the category concerned. The impact is greatest for members retired from active service. Veterans and retired reservists are affected by various degrees depending on their years of military service after 1956.

Since military members became full participants under the social security system on January 1, 1957, this situation will increase proportionally as more and more members and former members reach age 62. It has been estimated that approximately 1.47 million federal employees are veterans many of whom will face this potential reduction in civil service annuities. Also, about 142,000 are retired military personnel--approximately 118,000 are retired regular officers and enlisted members, and slightly over 23,000 are retired reservist members.

The Congress has previously considered the impact of this feature of the law on other individuals to whom it applied, and has exempted certain categories of personnel. One such category is commissioned officers in the Public Health Service and the Coast and Geodetic Survey, now part of the National Oceanographic and Atmospheric Administration. Pub. L. 91-604, December 31, 1970, permits commissioned officers of the Public Health Service transferred to the Environmental Protection Agency to make an irrevocable choice upon retirement between crediting their uniformed service after 1956 toward either social security or their annuity. Pub. L. 94-573 contains the same provision for officers transferred to the Consumer Product Safety Commission. Pub. L. 94-350 exempted Foreign Service Officers from the effects of the recalculation for military service performed before January 1, 1977, instead of January 1, 1957. An analogous situation pertains to civil servants, not necessarily veterans, employed in temporary positions subject to social security and not covered by the Civil Service Retirement System. These persons, if they are subsequently employed under the Civil Service Retirement System, receive full credit for their period of temporary service, subject, however, to a reduction in the annuity payable, unless they make a deposit to the retirement fund for that period of service.

Mr. Chairman, this concludes my prepared statement. I would be glad to respond to your questions.

DOD Responses to Written Questions Submitted by Senator Stevens

Question 1. What would be the estimated annual savings in waived military retired pay if S. 46 were adopted?

Answer. The estimated outyear projections of the amount of waived retired pay is as follows. Also reflected are the Consumer Price Index and salary assumptions that were used.

Fiscal year	Amount waived (millions)	CPI assumptions		Salary assumptions
1982	273	March 1982	0.087	0.080
1983	301	March 1983	.066	.076
1984	325	March 1984	.050	.055
1985	347	Thereafter	.050	.055
1986	370			
1987	394			
1988	419			
1989	446			
1990	476			
1991	506			
1992	539			
1993	573			
1994	608			
1995	645			
1996	634			
1997	725			
1958	769			
1999	814			
2000	861			

Question 2. The General Accounting Office has proposed as a cost saving alternative to S. 46 that the "Catch 62" victim be allowed to either waive all social security earned in any employment and keep an unreduced annuity or accept social security and a reduced annuity after age 62 as currently required by Public Law 84–881. Does the Department of Defense consider this a viable alternative to S. 46?

Answer. There are several alternatives that are viable. The GAO proposal would allow an individual to either waive all social security benefits and keep the unreduced civil service annuity or accept social security and a reduced civil service annuity. Another alternative would be to reduce the civil service annuity by the amount of the social security benefit solely attributable to military service. This is similar to the social security integration feature that exists in the Survivor Benefit Plan for members of the Uniformed Services set out at section 1451 of title 10, United States Code, and would apply to all categories of affected individuals. A third alternative would be to permit members to revoke their waiver of military retired pay in the "Catch 62" situation. This alternative would concern retired military members, but not the veteran population.

U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
Expected about 9:30 a.m.
May 18, 1982

STATEMENT OF

ROSSLYN S. KLEEMAN
ASSOCIATE DIRECTOR
FEDERAL PERSONNEL AND COMPENSATION DIVISION

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES, SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

S. 46, A BILL TO PERMIT MILITARY SERVICE PERFORMED AFTER 1956 TO BE CREDITED FOR BOTH CIVIL SERVICE RETIREMENT AND SOCIAL SECURITY BENEFITS

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss the General Accounting Office's views on S. 46, a bill to revise civil service retirement provisions regarding annuity credits for military service performed after 1956. My statement, Mr. Chairman, will generally summarize the Comptroller General's letter of August 22, 1980, to the former Chairman of the Committee on Governmental Affairs regarding S. 92, a bill identical to S. 46. The letter presents a detailed analysis of existing retirement provisions and the proposed legislation. If there is no objection, I would like to request that the letter be included in the record.

S. 46 would eliminate the current requirement whereby civil service retirees with military service after 1956 must have such service credited toward social security rather than civil service retirement if they become eligible for social security. Since eligibility for social security generally occurs at age 62, this provision is usually referred to as "Catch-62." We are not in favor of the bill because it would allow former military personnel to receive both social security and civil service retirement credits for the same period of service. It would also increase the cost of the civil service retirement system. However, we have suggested an alternative between the present law and the proposed legislation which would alleviate Catch-62 problems and still be equitable.

Under our alternative, a civil service retiree with military service, if eligible for social security, would have the choice of (1) receiving social security along with a recalculation of the civil service annuity, as is now done, or (2) waiving social security and continuing to receive the full civil service annuity.

The purpose of our alternative is to eliminate distressing situations where severe income reductions are forced on individuals during their retirement years. Under the alternative, the least that can happen is that a retiree's current income will be protected. And, if social security would be more than the reduction in the civil service annuity at age 62, that choice would also be available. At the same time, a period of military service would not earn benefits from both the civil service system and social security. The latter overcomes the principal objections we have had to proposals such as S. 46 to remedy Catch-62 situations.

At your request, Mr. Chairman, we estimated the cost of our alternative proposal. Based on data obtained from OPM and certain economic assumptions regarding future long-term rates of inflation and Federal employee pay increases, we estimated that our alternative would, over the next 25 years, increase civil service retirement costs by $4 billion and reduce social security benefits by $2.5 billion, resulting in a net cost of $1.5 billion. In comparison, we estimated that over the same period of time S. 46 would cost about $7.9 billion. (See attachment.)

We believe that the Government needs an overall, coherent, and coordinated policy to guide the development of its retirement programs. The many Federal retirement plans (as many as 38 separate plans, depending upon the definitions used) have not been viewed as parts of an overall retirement system. As a result, each has developed in a piecemeal fashion. The programs vary substantially in such areas as employee contribution rates, benefit formulas, creditable service, social security coverage, and retirement eligibility requirements. The Catch-62 situation is an example of the kind of problems that occur because there has been no coordinated policy and guidance.

Catch-62 and the current treatment of civil service employees would not have occurred if the retirement systems and social security were less independent and more compatible--for instance, if military personnel and civilian employees were both either covered or not covered by the social security system.

This concludes my remarks, Mr. Chairman. We would be pleased to answer any questions at this time.

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ATTACHMENT ATTACHMENT

CATCH-62
COST COMPARISON BETWEEN S. 46
AND GAO PROPOSAL (note a)

Year	Estimated additional civil service retirement costs under S. 46	GAO proposal: Estimated additional civil service retirement benefit payments	GAO proposal: Estimated reduction in social security benefit payments	GAO proposal: Estimated net additional costs
	(millions)			
1982	$ 6.1	$ 3.0	$ 1.9	$ 1.1
1983	7.6	3.8	2.4	1.4
1984	9.5	4.7	2.9	1.8
1985	11.6	5.7	3.6	2.1
1986	15.1	7.6	4.7	2.9
1987	17.2	8.6	5.4	3.2
1988	22.6	11.3	7.1	4.2
1989	27.1	13.5	8.4	5.1
1990	31.7	16.0	10.0	6.0
1991	46.0	23.2	14.5	8.7
1992	73.4	37.1	23.2	13.9
1993	108.8	54.9	34.3	20.6
1994	144.7	73.1	45.7	27.4
1995	192.0	97.9	61.1	36.7
1996	254.0	129.5	80.9	48.6
1997	337.2	171.9	107.4	64.5
1998	427.7	218.1	136.3	81.8
1999	536.4	273.6	171.0	102.6
2000	689.3	355.0	221.9	133.1
2001	721.0	371.3	232.1	139.2
2002	774.0	399.6	249.8	149.9
2003	816.2	420.3	262.7	157.6
2004	856.0	440.8	275.5	165.3
2005	891.3	459.0	286.9	172.1
2006	921.5	474.6	296.6	178.0
	$7,938.0	$4,074.1	$2,546.3	$1,527.8

a/Estimated costs are based on the assumptions that the future annual rate of inflation will be 5 percent and that future annual pay increases will average 5.5 percent.

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-93671
FPC-96-1-5

AUG 22 1980

The Honorable Abraham Ribicoff
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

This is in response to your request for our views on S. 92, a bill to permit military service performed after 1956 to be credited for both civil service retirement and social security benefits.

The bill would change the current requirement whereby civil service retirees with military service after 1956 must have that service credited toward social security rather than civil service retirement if they become eligible for social security, generally at age 62. This provision is usually referred to as Catch 62.

We do not believe that S. 92 should be enacted because it would allow former military personnel to receive both social security and civil service credits for the same period of service and at substantially increased cost to the Government. However, we believe there is an alternative between the present law and S. 92 that would alleviate Catch 62 and still be equitable to affected retirees and the Government.

To understand the reason for, and effect of, Catch 62, some background information on military and civil service retirement and social security is necessary.

Military members are covered by the uniformed services retirement system and are eligible to retire with immediate benefits at any age after 20 years of service. Covered personnel do not contribute toward the cost of the retirement system, and no benefits (except for disability) are payable if the member leaves the service before 20 years. Starting in 1957, military personnel were also covered by social security. They make social security contributions (currently 6.13 percent of the first $25,900 of basic pay) and are eligible for social security benefits at age 62, computed on their lifetime covered earnings, the same as any other wage earned under the system. It normally requires 40 calendar

quarters or 10 years of covered earnings to become eligible for social security benefits. Military and social security benefits are fully additive--whatever retirement benefits military retirees receive under one system have no effect on benefits received under the other.

Civil service retirement is the major staff retirement plan for Federal civilian employees and, in general, provides for retirement with immediate benefits as early as age 55 with 30 years of service. Employees covered by the civil service system do not participate in social security. The civil service system requires employee contributions (generally 7 percent of pay), and annuities are based on earnings and length of service. Also, any previous military service of Federal employees is, with certain exceptions, creditable under the civil service system. Employees are not required to make contributions to the retirement fund for their military service credits.

Military members were brought under social security in 1957 to improve their survivor benefits. When this legislation was being considered, the Civil Service Commission (now the Office of Personnel Management) pointed out that one effect of extending social security coverage to the military would be to allow periods of military service to be creditable toward social security as well as civil service retirement for military members who later obtained civil service jobs. Therefore, the bill was amended to specify that military service after the effective date of the law (Dec. 31, 1956) could not be creditable toward a civil service retirement annuity when an individual became eligible for social security benefits. Thus, when (and if) civil service retirees become eligible for social security at age 62, their civil service annuities are recalculated, excluding the years of military service after 1956. The net effect of the law is that, when eligible for social security benefits, a civil service retiree's military service after 1956 counts only toward social security. The civil service annuity is then based solely on the years of participation in the civil service system.

We believe the Congress was correct in 1956 in recognizing that military service should not be creditable under both social security and civil service retirement. What evidently was unforeseen at that time was that the dollar value of a year of creditable service could be significantly different between the plans. Several factors determine the worth of a period of creditable service, and under Catch 62, social security benefits received may be more or less than

the decrease in the civil service annuity. But, the greater the number of military years of service after 1956, the greater the reduction in civil service retirement at age 62. In some cases, the reduction can be severe, amounting to several thousand dollars annually. S. 92 would prevent this situation by allowing Federal employees' military service to be credited for both civil service retirement and social security.

We believe that the Government needs an overall, coherent, and coordinated policy to guide the development of its retirement programs. The many Federal retirement plans (as many as 38 separate plans, depending upon the definitions used) have not been viewed as parts of an overall retirement system. As a result, each has developed in a piecemeal fashion. The programs vary substantially in such areas as employee contribution rates, benefit formulas, creditable service, and retirement eligibility requirements. The Catch 62 situation is an example of the kind of problems that occur because there has been no coordinated policy and guidance. A parallel situation applies to many civilian Federal employees who began their careers as temporary employees. Until they gain permanent status, they participate in social security but not civil service retirement. If they become permanent employees, they are covered by civil service retirement, and the social security covered employment period is creditable for retirement purposes. If these employees do not make a deposit, with interest, to the civil service retirement fund to cover this temporary employment period, their retirement annuities are reduced by 10 percent of the amount owed. Thus, these employees, unlike their Catch 62 counterparts, receive dual credit under social security and civil service retirement.

We previously reported on management problems surrounding non-permanent Federal employment. 1/ We concluded, among other things, that such employees should probably have the option of participating in either social security or civil service retirement. (See enclosure III.)

Catch 62 and the current treatment of civil service employees would not have occurred if the retirement systems and social security were less independent and more compatible--for instance, if military personnel and civilian employees were both either covered or not covered by the social security system.

1/"Part-Time And Other Federal Employment: Compensation And Personnel Management Reforms Needed," FPCD-78-19, June 5, 1979.

To identify the extent of the problem, and to determine if there is a possible solution that is equitable to retirees, the Government, and the taxpayers, we analyzed the effect that the current law and other alternatives, including S. 92, would have on retirees. Specifically, we (1) analyzed 100 randomly selected retiree cases actually affected by Catch 62 and (2) estimated how individuals with varying lengths of military and civilian service at various earnings levels would be affected by the law and an alternative. The details of these analyses are included in enclosure I.

A general statement that Catch 62 is inequitable cannot be supported. It definitely is for some, but there are many variables involved which have to be considered and may also work to a retiree's advantage. These include: years of military service after 1956; years of civil service employment; relationship of the civil service annuity to military retired pay; social security eligibility and covered earnings; and the size of future pay raises and retirement cost-of-living increases.

Although the impact of Catch 62 increases with the number of years of military service after 1956, civil service retirees who are also military retirees have a choice as to how their military years of service are treated--they can choose not to be subjected to Catch 62. When deciding to leave the civil service, say at age 55 with at least 30 years of Federal, military, and civilian service combined, these individuals have two options. They can waive future military retired pay and receive a civil service annuity based on both their military and civilian years of service. At age 62, the civil service annuity would be adjusted by excluding post-1956 years of military service, and the individual would also be eligible for social security. The other option would be to continue to receive military retirement and elect a deferred civil service annuity, payable beginning at age 62, based only on civilian service. Social security benefits would also begin at age 62.

A determination of which of these options allowed by the law is "better" depends on retirees' personal preferences. They might prefer a larger combined annuity until age 62 followed by a lower income after then. On the other hand, they may prefer to continue to receive only military retired pay after leaving civilian employment until age 62 when they will receive benefits from all three programs with no offset.

Military retirees may also avoid Catch 62 by continuing to work until they meet the age and service requirements for civil service retirement based on their civilian employment alone. In addition to the age 55/30 years' service requirement, Federal employees may also retire at age 60 with 20 years of service or at age 62 with 5 years.

Most of the discussion and testimony before the Congress on Catch 62 has centered around retirees who waived military retired pay and had their civil service annuities reduced at age 62. Although this is often claimed to be a serious inequity, it should be kept in mind that these individuals (1) received military retired pay throughout their years of Federal civilian employment, (2) were able to retire under civil service earlier than they otherwise would have been able, and (3) made no contributions to the civil service retirement fund for their years of military service.

In any case, most of the Federal employees who will be affected by Catch 62 are not military retirees. Of the approximately 1.5 million civil service employees with military service (about half the workforce), only 9 percent are military retirees. The rest have had limited military service, often 2 to 4 years. Most of those who had short-term military service after 1956 are not yet eligible to retire from the civil service. Also, their cases are more clear cut than the military retirees'. If these veterans become eligible for social security, their civil service annuities will be reduced. They will have no option. Whether they will be better or worse off financially again depends upon individual circumstances. Also, whether the veteran would be better off than other veterans who had no recalculation because they were not eligible for social security depends on individual circumstances, including the fact that social security benefits are nontaxable while civil service benefits are taxable (after contributions are recovered) and that medical benefits associated with social security have been prepaid.

Of the 100 Catch 62 cases we reviewed (both military retirees and veterans), 73 received more in social security benefits than their reductions in civil service annuities. As time passes, similar samples will show fewer people gaining from Catch 62 and more losing because the retirees will have more post-1956 military service to forfeit than today's retirees. Also, the social security benefit received at age 62 will hold less value for many future Federal retirees. Employees who have spent most of their careers in Federal civilian employment often are not eligible for social security

or are minimally eligible through their military service and limited non-Federal employment. In the past, the minimum social security benefit has been disproportionately high compared to the earnings and contributions required to qualify for it and was also regularly adjusted by cost-of-living increases. But, in 1977 the social security law was revised to, in effect, freeze the minimum at $122 a month with no cost-of-living adjustments until payments to an individual begin. Thus, as time passes, the social security minimum will be of less and less value compared to the reduction in civil service annuities under Catch 62. The Catch 62 issue is therefore certain to intensify as its effect becomes increasingly greater on future retirees.

AN ALTERNATIVE TO S. 92

As a result of our work, we believe that there is an alternative between the present law and S. 92 that would alleviate Catch 62 problems and still be equitable. Under this alternative, the civil service retiree with military service, if eligible for social security, would have the choice at age 62 of (1) receiving social security along with the civil service annuity recalculation as is now done or (2) waiving social security and continuing to receive the full civil service annuity.

The purpose of our alternative is to eliminate distressing situations where severe income reductions are forced on individuals during their retirement years. Under the alternative, the least that can happen is that a retiree's current income will be protected. And, if social security would be more than the reduction in the civil service annuity at age 62, that choice would also be available. At the same time, a period of military service would not earn benefits from both the civil service system and social security. The latter overcomes the principal objections we have had to proposals such as S. 92 to remedy Catch 62 situations. If desired, we will of course be pleased to assist the Committee in drafting legislation along the lines of the alternative.

ADMINISTRATIVE PROBLEMS

Aside from any legislative change, there are two administrative problems associated with Catch 62 that need to be corrected.

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Catch 62 retirees are
not always identified

The Office of Personnel Management (OPM) and the Social Security Administration (SSA) are not identifying all civil service retirees who have military service after 1956 and are eligible for social security. Some of the retirees who should be subject to Catch 62 are being overlooked, and those who become eligible for social security after age 62 are not being identified at all. Therefore, not all annuities are being decreased as required by the law.

In April 1980 we issued a letter (enclosure II) to OPM recommending that it establish an automatic call up system to identify civil service retirees with military service after 1956 and that OPM and SSA develop an automated system to identify retirees who become eligible for social security at or after age 62.

OPM responded that it is currently undergoing a major conversion of the annuity roll to a new computer system which is scheduled for completion during the last quarter of fiscal year 1980. OPM has elected to defer many projects until this conversion is completed. At that time OPM plans to review all deferred projects for possible implementation.

Employees are not
informed about Catch 62

OPM has overall responsibility for advising and counseling employees and maintaining civil service retirement records. However, the functions of deciding if and how the Catch 62 issue should be included in pre-retirement counseling programs are largely delegated to individual agencies. We contacted seven agencies who employ approximately 33 percent of the Federal civilian workforce to determine what guidance they have received on the Catch 62 issue. We also talked with pre-retirement counselors at these agencies to determine what information they provide military retirees and veterans on how Catch 62 may affect them.

Most agencies and counselors were generally not aware of the Catch 62 issue, and of those that were, few had the expertise needed to adequately counsel military retirees and veterans on the possible effects of Catch 62. Counselors often did not know that civil service retirees who become eligible for social security benefits will have their civil

majority of the individuals now affected by Catch 62 receive net increases to their retirement incomes.

The 73 annuitants received an average of $102 a month more from social security than they lost from the civil service retirement recalculation. The other 27 annuitants lost an average of $68 each month. The following table illustrates some annuitants' gains and losses:

Post 1956 military years of service	Civil service annuity		Social Security entitlement	Total benefits	Net gain (loss)
	Before adjustment	After adjustment			
	Monthly				
10 mos.	$ 760	$ 744	$ 276	$1,020	$260
6 yrs. 7 mos.	650	527	140	667	17
15 yrs. 2 mos.	498	125	309	434	(64)
8 yrs. 11 mos.	710	476	300	776	66
8 yrs. 6 mos.	580	390	174	564	(16)
7 yrs. 5 mos.	2,118	1,658	165	1,823	(295)
1 month	1,573	1,569	240	1,809	236
10 yrs.	754	448	237	785	(69)

FUTURE EFFECT ON TYPICAL CATCH 62 CASES

We estimated future retirement incomes at age 55 for six types of Catch 62 cases--officers and enlisted members who were 3 and 12-year veterans and 20-year retirees. We estimated what their lifetime retirement earnings would be:

1. Under the current law, if they deferred their civil service annuities until age 62 or combined military and civilian years of service to receive an immediate annuity.

2. If, at age 62, military service could be credited for either civil service or social security.

3. Under S. 92 where military service could be credited for both social security and civil service retirement.

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ANALYSIS OF THE EFFECT OF CATCH 62 - PRESENT LAW, S. 92, AND AN ALTERNATIVE

How Catch 62 affects annuitants depends upon a number of factors including: years of post-1956 military service; receipt of military retired pay; years of civilian service; relationship of the civil service annuity to military retired pay; social security eligibility; amount of social security covered earnings; and other variables, such as individual and general wage growth and the Consumer Price Index.

It is important to distinguish between military retirees and veterans, because military retirees receive retirement benefits from their military service and become subject to Catch 62 at their own option. Also, veterans should be subdivided into those with relatively short periods of military service and those with longer service, but not enough to qualify for military retirement benefits. The veterans should be further subdivided into those who will and will not be eligible for social security at age 62. Approximately one-half of all Federal civilian employees (almost 1.5 million) are veterans, and only about 142,000 of these are retirees.

Much of the discussion and testimony on the Catch 62 issue has been misleading because of its failure to make distinctions between military retirees and veterans. Generalizations are commonly drawn based on military retirees who elected to waive military retired pay and subsequently had their civil service annuity reduced at age 62. Although the impact on individual annuities of Catch 62 is greatest for retirees and long-term veterans, the greatest impact on total costs will be caused by veterans with 2 to 4 years of military service because of their sheer numbers in Federal employment.

MANY ANNUITANTS HAVE RECEIVED NET INCREASES TO THEIR RETIREMENT INCOME AT AGE 62

To obtain a better perspective of Catch 62 issues and concerns, we evaluated 100 instances in which civil service retirees had their annuities reduced at age 62. Of those, 73 annuitants received net increases in their retirement incomes since their social security benefits were greater than the reduction in their civil service retirement payments. This survey may be too small to make definitive projections, but it does indicate that currently (1) only a small percentage of civil service retirees are suffering substantial annuity reductions from Catch 62 and (2) the

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service annuities recomputed excluding their post 1956 military service. One counselor believed only military retirees were affected, but not veterans. Furthermore, most of the counselors who understood Catch 62 had not been provided sufficient training or material to advise retirees of the options available to them and which option would be the most advantageous.

Retirees and veterans who do not know about this issue are caught by surprise when they reach age 62. For some, it may have caused economic hardships. The potential effect of Catch 62 needs to be brought to the attention of Federal employees who have prior military service as well as veterans who are contemplating Federal civilian employment.

Sincerely yours,

Signed

Comptroller General
of the United States

Enclosures - 3

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Overall assumptions used were that pay increases would be 7.5 percent annually, Consumer Price Index increases would be 7 percent a year, and the retirees would live to age 77. Additional assumptions as to the rank and grade of the individuals and years of civilian service are specified in the individual analyses.

Veterans with 3 years of military service (pages 7 and 8)

Catch 62 will not affect short-term veterans unless they acquire additional social security coverage outside the Government. In the past, it has been advantageous for these employees to acquire the minimum social security coverage, because the benefits were greater than the reduction in civil service retirement payments. However, this will not be true for future retirees, because in 1977 the social security law was revised to, in effect, freeze the minimum at $122 a month with no cost-of-living adjustments until payments to an individual begin.

Our analysis of two 3-year veterans (an officer retiring with 32 years of total Federal service at a GS-13 in 1989, and an enlisted member retiring as a GS-11 in 1992 with 35 years of service) disclosed that:

--Lifetime retirement incomes for retirees who also receive social security would be about 4 percent less than for retirees not eligible for social security.

--Annuitants' annual retirement incomes would be reduced if they were eligible for minimum social security benefits. For example, the former enlisted annuitant with 3 years of military service will lose $6,720 from his civil service benefits at age 62 and will receive social security benefits of $2,672.

12-year veterans (pages 9 and 10)

Our analysis of two 12-year veterans (an officer retiring as a GS-14 in 1989 with 32 years of total Federal service and an enlisted member retiring as a GS-12 in 1992 with 35 years of Federal service) disclosed that:

--The effect of Catch 62 on veterans with several years of service is much greater than on those with a few years of military service. For example, the retiree with 12 years of enlisted service will have

the civil service annuity reduced at age 62 by about 36.2 percent and an annual retirement income reduction about 24.5 percent. The member's lifetime retirement income will be reduced by about 20 percent.

--Few, if any, of the long-term veterans will receive social security benefits equal to their civil service retirement reduction. To determine the true value of the lifetime retirement income, an analysis would have to consider only taxable income since social security is non-taxable.

--S. 92 provisions would be the most costly alternative to the Government.

Military retirees with 20 years of post-1956 service

Military retirees have a choice, to either waive military retired pay and receive an immediate civil service annuity based on years of both military and civilian service (will be reduced at age 62) or continue receiving military retired pay and receive a deferred civil service annuity at age 62. More than 17,000 retirees have waived military retired pay since 1956. However, many of these individuals completed their military service prior to 1957 and would not be affected by Catch 62.

The effect of Catch 62, if any, for military retirees depends on the option chosen when they are eligible for civil service retirement. Lifetime retirement benefits would be greater from drawing military retired pay and deferring the civil service retirement annuity until age 62. However, some may still prefer a combined annuity because their incomes will be substantially higher during their earlier retirement years.

Enlisted member (page 11)

We estimated the future lifetime retirement benefits for an E-8 who retired from the military in 1977 at age 40 with 20 years of military service and then entered Federal civilian employment. The earliest date at which the employee could retire with an immediate civil service annuity will be in 1992, at age 55 with 15 years of civilian service and 35 years of combined Federal service. If the civilian and military service were not combined, the employee could not receive a civil service annuity unless he continued to work until age 60.

The employee will have a choice if he wishes to retire at age 55: (1) waive military retired pay and receive an annuity based on 35 years of Federal service or (2) continue to draw military retired pay and receive a deferred civil service

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annuity at age 62 based on 15 years of service. In either case, he will receive social security benefits at age 62.

If the employee combines military and civilian service for a single annuity from civil service retirement, he could retire 5 years earlier than otherwise would be allowed. His beginning annuity will be $33,871 a year and will grow to $50,829 by age 61. At age 62, when he becomes eligible for social security, the civil service annuity will be reduced to $21,549 (60 percent decrease), but he will receive social security benefits of $11,285 for a total of $32,834. The net effect is that the retirement income will be reduced by about 40 percent.

If this annuitant had chosen to receive benefits from both the uniformed services and civil service retirement systems, his military retired pay would have increased to $18,981 by age 55 and $30,477 by age 62. At age 62, he could receive social security benefits of $11,285 (based on military service) and a deferred civil service annuity of $13,419 for a total retirement income of $55,181.

A comparison of annual retirement annuities under the above two choices showed that retirement income under a combined annuity would be about 78 percent greater each year from age 55 to 61, but it would be 40 percent lower each year thereafter. But, the annuitant will receive the highest lifetime earnings by accepting a deferred annuity rather than combining military and civilian service.

Retired Officer (page 12)

We examined the future lifetime retirement benefits for an O-5 who retired from the military in 1977 after 20 years and then entered Federal service. The earliest date the employee could retire with an immediate civil service annuity will be in 1990 at age 55 with 13 years of civilian service and 33 years of combined Federal service. An immediate civil service annuity based on civilian employment alone would not be available until 1997, when the employee would reach age 62.

As with all military retirees, this individual would have an option at age 55 of combining his military and civilian service for a civil service annuity or continue to receive military retired pay and receive a deferred civil service annuity at age 62 based on 13 years of civilian service. If the annuitant chooses to combine his Federal service for a single annuity from civil service retirement, his beginning annuity will be $51,873 a year and will grow to $77,847 a year at age 61. At age 62, he will be eligible for social security benefits of $11,133, but the civil service annuity

will be reduced to $29,777 (64 percent decrease) for a total annual retirement income of $40,910. The net effect is that annual retirement income is reduced by about 51 percent.

If this annuitant had chosen to receive separate annuities, military retired pay would have increased to $31,675 at age 55 and to $50,872 at age 62. At age 62, the annuitant could receive social security benefits of $11,133 (based on military service) and a deferred civil service annuity of $18,548 for an annual retirement income of $80,553.

A comparison of annual retirement annuities under the above two choices showed that retirement income under a combined annuity would be about 64 percent greater each year from age 55 to 61, but about 49 percent lower each year thereafter. As with the enlisted member, lifetime income is higher when accepting a deferred annuity rather than combining military and civil service annuities.

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COMPARISON OF RETIREMENT INCOMES
3 YEAR VETERAN - ENLISTED

	Current law	Option-Civil Service or Social Security	S. 92
Annuity at age 55			
Civil Service	$46,209	$46,209	$46,209
Military	-	-	-
Total	46,209	46,209	46,209
Annuity at age 61			
Civil Service	$69,344	$69,344	$69,344
Military	-	-	-
Social Security	-	-	-
Total	69,344	69,344	69,344
Annuity at age 62			
Civil Service	b/ $67,477	a/ $74,197	$74,197
Military	-	-	-
Social Security	2,672	-	2,672
Total	70,149	74,197	76,869
Lifetime Annuity	$2,162,643	$2,264,369	$2,331,503

Assumptions used: CPI increase - 7 percent.
Pay Raise - 7.5 percent.
Retired as a GS-12 in 1992 with 35 years of Federal service.
Retiree Profile: Age 55 in 1992; and lived to age 77.

Notes: a/Annuitant elects full civil service annuity and waives social security.
b/Would have been $74,197 if not eligible for social security - difference $6,720.

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COMPARISON OF RETIREMENT INCOMES
3 YEAR VETERAN - OFFICER

	Current Law	Option-Civil Service or Social Security	S. 92
Annuity at age 55			
Civil Service	$40,569	$40,569	$40,569
Military	-	-	-
Total	40,569	40,569	40,569
Annuity at age 61			
Civil Service	$60,877	$60,877	$60,877
Military	-	-	-
Social Security	-	-	-
Total	60,877	60,877	60,877
Annuity at age 62			
Civil Service	b/ $58,646	a/ $65,132	$65,132
Military	-	-	-
Social Security	3,116	-	3,116
Total	61,762	65,132	$68,248
Lifetime Annuity	$1,903,120	$1,987,823	$2,066,117

Assumptions used: CPI increases - 7 percent.
Pay Raises - 7.5 percent.
Retired as a GS-13 in 1989 with 32 years of Federal service.
Retiree Profile: Age 55 in 1989; 62 in 1996; and lived to age 77.

Notes: a/Annuitant elects full civil service annuity and waives social security.

b/Would have been $65,132 if not eligible for social security - difference $6,486.

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COMPARISON OF RETIREMENT INCOME
12 YEAR VETERAN - ENLISTED

	Current law	Option-Civil Service or Social Security	S. 92
Annuity at age 55			
Civil Service	$42,597	$42,597	$42,597
Military	-	-	-
Total	42,597	42,597	42,597
Annuity at age 61			
Civil Service	$63,923	$63,923	$63,923
Military	-	-	-
Social Security	-	-	-
Total	63,923	63,923	63,923
Annuity at age 62			
Civil Service	$43,619	a/ $68,397	$68,397
Military	-	-	-
Social Security	7,974	-	7,974
Total	51,593	68,397	76,371
Lifetime Annuity	$1,665,106	$2,087,351	$2,287,738

Assumptions used: CPI increases - 7 percent.
Pay Raises - 7.5 percent.
Retired as a GS-12 in 1992 with 35 years of Federal service.
Retiree Profile: Age 55 in 1992; 62 in 1999; and lived to age 77.

Notes: a/Annuitant elects civil service and waives social security.

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COMPARISON OF RETIREMENT INCOME
12 YEAR VETERAN - OFFICER

	Current law	Option-Civil Service or Social Security	S. 92
Annuity at age 55			
Civil Service	$39,715	$39,715	$39,715
Military	-	-	-
Total	39,715	39,715	39,715
Annuity at age 61			
Civil Service	$59,595	$59,595	$59,595
Military	-	-	-
Social Security	-	-	-
Total	59,595	59,595	59,595
Annuity at age 62			
Civil Service	$38,362	a/ $63,760	$63,760
Military	-	-	-
Social Security	7,359	-	7,359
Total	$45,721	$63,760	$71,119
Lifetime Annuity	$1,492,637	$1,945,962	$2,130,899

Assumptions used: CPI increases - 7 percent.
Pay Raises - 7.5 percent.
Retired as a GS-14 in 1989 with 32 years of Federal service.
Retiree Profile: age 55 in 1989; 62 in 1996; and lived to age 77.

Note: a/Annuitant elects full civil service annuity and waives social security.

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COMPARISON OF RETIREMENT INCOME
20 YEAR MILITARY RETIREE - ENLISTED

	Current law			
	Combines military and civilian years of service	Defers annuity	Option-civil service or social security	S. 92
Annuity at age 55				
Civil Service	$33,871	$ -	$33,871	$33,871
Military	-	18,981	-	-
Total	33,871	18,981	33,871	33,871
Annuity at age 61				
Civil Service	$50,829	$ -	$50,829	$50,829
Military	-	28,843	-	-
Social Security	-	-	-	-
Total	50,829	28,843	50,829	50,829
Annuity at age 62				
Civil Service	$21,549	$13,419	a/ $54,386	$54,386
Military	-	30,477	-	-
Social Security	11,285	11,285	-	11,285
Total	32,834	55,181	54,386	65,671
Lifetime Annuity	$1,118,251	$1,550,889	$1,659,778	$1,943,344

Assumptions used: CPI increases 7 percent.
Pay Raises 7.5 percent.
Retired as an E-8 in 1977 with 20 years of military service.
Retiree as a GS-11 in 1992 with 35 years of Federal service.
Retiree Profile: age 55 in 1992; age 62 in 1999; and lived to age 77.

Note: a/Annuitant elects full civil service annuity and waives social security.

ENCLOSURE I

ENCLOSURE I

COMPARISON OF RETIREMENT INCOME
20 YEAR MILITARY RETIREE - OFFICER

	Current law			
	Combines military and civilian years of service	Defers annuity	Option-Civil Service or Social Security	S. 92
Annuity at age 55				
Civil Service	$51,873	$ -	$51,873	$51,873
Military	-	31,675	-	-
Total	51,873	31,675	51,873	51,873
Annuity at age 61				
Civil Service	$77,847	$ -	$77,847	$77,847
Military	-	47,536	-	-
Social Security	-	-	-	-
Total	77,847	47,536	77,847	77,847
Annuity at age 62				
Civil Service	$29,777	$18,548	a/ $83,310	$83,310
Military	-	50,872	-	-
Social Security	11,133	11,133	-	11,133
Total	40,910	80,553	83,310	94,443
Lifetime Annuity	$1,476,850	$2,298,108	$2,542,172	$2,821,906

Assumptions used: CPI increases - 7 percent.
Pay Raises - 7.5 percent.
Retired as an O-5 in 1977 with 20 years of military service.
Retired as a GS-15 in 1990 with 33 years of Federal service
Retiree Profile: Age 55 in 1990; 62 in 1997; lived to age 77.

Note: a/Annuitant elects full civil service annuity and waives social security.

ENCLOSURE II

ENCLOSURE II

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-198304

APRIL 22, 1980

The Honorable Alan K. Campbell
Director, Office of Personnel
Management

Dear Mr. Campbell:

Subject: Some Civil Service Retirees Subject to "Catch 62" Are Not Being Identified (FPCD-80-47)

We are currently reviewing the "Catch 62" provision of the civil service retirement system whereby military service performed after 1956 cannot be credited for both civil service and social security retirement benefits. We will be providing comments on S. 92 to the Chairman, Committee on Governmental Affairs, in the near future. S. 92 would permit military service performed after 1956 to be credited for both civil service retirement and social security benefits. During this review, we identified some administrative problems that can be readily fixed. Because of these problems, many civil service retirees subject to "Catch 62" may not have their civil service annuities reduced in accordance with the law.

Under current law (5 U.S.C. 8332(j)), if a civil service retiree becomes eligible for social security benefits (normally at age 62), the Office of Personnel Management (OPM) is to recompute the civil service annuity and exclude any military service after December 31, 1956, from the annuity computation. Indications are that this is not always being done, and the problem may be greatly exacerbated when more and more individuals with post-1956 military service become eligible for civil service and social security benefits.

OPM's claims adjudication procedures require that cards be prepared for retirees with post-1956 military service and filed for future followup. Three months before the retiree becomes 62, OPM is to ask the Social Security Administration (SSA) if the retiree is eligible for social security benefits

and, if so, to recompute the civil service annuity. Your Compensation Group's quality assurance staff reported in March 1978 that cards were not being prepared or were misfiled. This could result in substantial overpayments because annuities might not be recomputed.

The quality assurance staff recommended that the annuitant's master record file on the existing automated data processing system be revised to include the years of post-1956 military service. This file would be keyed for automatic callup before the annuitant's 62nd birthday. The Compensation Group concurred that the recommendation appeared sound; however, no action has been taken to correct the problem. We understand that OPM has placed a very low priority on the problem, even though staff estimates show that it could be corrected in about half a staff month.

Our spot check of a few 1979 retiree folders verified that the problem still exists. The retirees had been informed that their annuities would be recomputed at age 62 if they became eligible for social security; however, the necessary cards had not been prepared, and OPM could not follow up on retirees' social security eligibility. If not corrected, this problem could result in substantial overpayments.

We recommend that you implement the changes outlined by your quality assurance staff to avoid future overpayments. Also, OPM should explore the possibility of determining whether there are any current retirees who should have their annuities reduced but who may not have been previously identified by the manual procedures.

Another problem is that OPM's procedures do not identify retirees who become eligible for social security after age 62. As stated previously, OPM queries SSA 3 months before a retiree's 62nd birthday, but there is no followup to identify retirees who become eligible for social security benefits after age 62. Without this followup, retirees who become eligible for social security after age 62 will not have their civil service annuity reduced.

Additional problems could develop because the transactions between OPM and SSA are handled manually. Currently, the SSA Washington District Office receives about 100 requests each month from OPM on possible "Catch 62" cases. SSA sends these requests to its district office nearest to each annuitant to determine social security eligibility. As time passes, there will be more and more annuitants with

post-1956 military service. As these numbers increase, manual operations will become an administrative burden to both OPM and SSA, and the possibility of administrative errors resulting in overpayments will also increase. OPM and SSA need to establish an automated system to identify retirees eligible for social security at age 62 and retirees who become eligible after age 62. The Director of User Services at SSA advised us that its existing automated system could easily be revised to include post-1956 military service on the annuitant's earnings record.

We believe that an automated system for determining and following up on social security eligibility is needed to properly implement the current law. Such an automated system will also be needed to implement most of the changes to the law that are now being considered. We recommend that you explore the possibilities of developing such a system with SSA.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Health and Human Resources; and to the Chairmen, House Committee on Post Office and Civil Service, the Senate Committee on Governmental Affairs, and the House and Senate Committees on Appropriations.

Sincerely yours,

H. L. Krieger
Director

Senator STEVENS. Mr. Sheffey, Mr. Hennrikus, and Mr. Nolan.

Gentlemen, I know that you are experienced with the Hill. I am just going to make a request from you. I would like to print your statements in the record in full and have you summarize for me, if you would, the statements that you think are pertinent as far as the changing situation is concerned vis-a-vis this question and the veterans in the country.

TESTIMONY OF COL. GEORGE F. HENNRIKUS, JR., USAF, RETIRED, DIRECTOR OF LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION; JOHN P. SHEFFEY, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION FOR UNIFORMED SERVICES; AND ROBERT W. NOLAN, NATIONAL EXECUTIVE SECRETARY, FLEET RESERVE ASSOCIATION

Mr. HENNRIKUS. I am George Hennrikus, with The Retired Officers Association. I also represent the Retired Enlisted Association. I appreciate the opportunity to submit our statement for the record.

I would like to summarize our feelings on the situation by saying we feel that this is a wrong that has to be righted, and we feel also that the only valid argument remaining is that of cost at a time of strict budget discipline.

We hope that you will be able to report it favorably. I understand the problem involved, and among other things, we also hope that some misperceptions will be corrected by this hearing.

One is reflected in the announcement of the hearing itself in which it states: S. 46, a bill to expand credit for civil service retirement for retired military personnel who currently are civil service employees or retirees. That accounts for 15 percent of the problem.

Eighty-five percent of the people we are talking about are people that have 2, 3 4, 5 years of service and are going to lose that service when they reach age 62, who are now serving in civil service or have served in civil service or have served in civil service and are retiring from that plan.

Thank you very much, Mr. Chairman. We appreciate the opportunity.

Mr. SHEFFEY. Mr. Chairman, I am John Sheffey, as you know. You were minority leader of the subcommittee the last time I testified on this issue; I am glad to see you are the majority chairman now.

Senator Thurmond and others, together with my statement, cover this matter in such detail that it would be a waste of time to repeat it. I would like to confine my remarks to some of the suggestions that have been made; some of the problems with the cost estimates; and some of the alternatives and the problems with them. This will take a very short time.

First of all, the cost estimates that you have seen are highly biased, in my judgment, and designed to defeat the bill. The statistical sample on which the OPM made their cost estimate that you got in 1979 consisted of 65 percent military retirees and 22 percent people with more than 10 years of military service.

Actually, only 15 percent of "Catch 62" victims are military retirees, and a very small percentage of the total of 1 million veterans involved in this have more than 2 or 3 years of military service; about 80 percent have less than 10.

The statistical sample was biased in terms of long service that had to be paid for, which is absolutely not true.

Then they projected that concept into the future for 25 years with compounded inflation; added it all up and talked about it like the costs were current costs. I made a little calculation that, under the concept of this $7 billion cost just referred to, your salary would be $500,000 a year at the end of that period. That is the kind of money they are talking about, and, of course, it is horrendous.

The constant dollar cost by my calculation, which takes their figures and puts them back into today's dollars, averages about $50 million a year over the next 20 years. It goes up to around $400 million at the end of the period, but it starts, next year, at $7 million; your own Congressional Budget Office has provided that figure.

The CBO also projects $8.25 million in the next year. It takes 10 years to get above $50 million. The near term costs are quite reasonable. Surely there will be an overall solution to this offset of social security and civil service long before that time. I think there has to be, as Senator Thurmond has remarked.

The civil service estimate made no reference to the corresponding costs of giving this same credit to some 350,000 former temporary employees. Apparently that is not a problem. It is a problem to give it to veterans for social security covered military service, but for almost identical temporary social security covered civil service, the cost is no problem. Yet the cost is fully a third of the cost of giving it to the veterans.

The OPM continues to maintain that credit for military service permits "early retirement." This is a smokescreen. It takes the same amount of Government service for anybody to select any retirement option in the civil service. They never refer to the former temporary employees getting early retirement; it is only the veteran.

Although quite aware of the situation, the OPM has not noted in its report to you and to others involved that the average military retiree enters the civil service two to four grades below his counterpart who has always been in the civil service.

This great lag is not overcome by the time of retirement, so their annuities are already lower than the annuities of equal service, equal grade career civil servants, even without the "Catch 62" reductions.

The OPM estimates also tend to give the impression that these costs are a cost to the civil service retirement fund. They are not. They are paid directly by the U.S. Treasury into the retirement fund as a reimbursement. This, of course, is still a cost to the taxpayer. The civil service estimates also left out the substantial savings in waived military retired pay. Every retiree who waives his retired pay for a better civil service annuity, combining all his service, waives a very substantial amount of military retired pay over the long run. This partially offsets the cost of his annuity.

The GAO's recommendation for an alternative has certain attractions. It would solve the net income loss problem for a limited number of people, but it would continue all the other inequities; that is, it would apply a gross income policy to only this narrow group of people and make them select either social security or an unreduced annuity; and, yet, the other 80 percent of civil service annuitants entitled to social security would not have any such requirement. They would continue to have their social security as wholly additive to their retirement incomes.

A more equitable alternative would be to offset the annuity by the dollar amount equal to the amount of social security attributable to military service. This is already done in the military survivor benefit program. The widow has an offset of the survivors benefit by some of the social security that her husband has earned for her. The Social Security Administration has provided a very simple formula for calculating this offset. It is in my testimony.

As Senator Thurmond remarked, your civil service reform bill would be prospective and it would not solve the problem for the great mass of people who are affected by "Catch 62." So we, and the some 39 associations that are supporting S. 46, believe S. 46 is the best solution. We believe the "Catch 62" discrimination was established on the erroneous premise that social security is a Federal retirement plan equivalent to the civil service retirement plan. Of course, it is not.

We believe it is unfair to the employees who served their country in uniform. We know if it is not relieved, it is going to become an ever-increasing irritant as growing numbers of veterans reach age 62 after retirement from the civil service and Postal Service.

The problem is going to get worse and worse, and more agitation is going to come if it is not solved. We believe that full elimination is the best solution, and we recommend that you approve S. 46.

We join Senator Thurmond in also saying that if your committee does not find S. 46 the appropriate solution, please ask the OPM and OMB to come up with a workable solution. The alternative I have suggested in my testimony would help a very large number of people. If it is not accompanied by a corresponding reduction of the former temporary employee's annuity, then the veterans remain discriminated against. But if the temporary employee has an offset of his annuity for social security, there would be a significant saving that would help pay for the benefits to the veterans. That is the substance of our case, sir.

I, again, thank you for listening to us.

Senator STEVENS. Thank you.

Mr. Nolan?

Mr. NOLAN. Mr. Chairman, as a retired chief petty officer for the U.S. Navy, it is my pleasure to represent the views of my 156,455 shipmates. I am also privileged to speak for the 150,000, approximately, sergeants of the Air Force Sergeants Association.

Mr. Harlow is present in the room and is submitting a detailed statement for the record.

I believe and my members believe that Senator Thurmond's testimony states the case quite well, quite clearly and certainly his bill, S. 46, offers what we feel is the best and most equitable solution.

I think that it would be superfluous for me to go through the points of my testimony. All the points in our testimony have been covered very effectively by Senator Thurmond's testimony.

Senator STEVENS. Thank you, gentlemen.

I think Senator Thurmond has presented, once again, a most difficult problem. I am not certain we have yet explored all the options for the solution. It is true that the bill we are working on deals with future retirement concepts and does not address the inequities of the existing system for the simple reason that we have just closed the circle. Those problems would be contained, and we would be able to identify and then quantify them in a much different way.

Then we could go to the new system and see what had to be done to adjust the old system as it phased out.

I think it would be much easier to do that with "Catch 62" to show that it would not have any future applications, because my fear in reading in S. 46 is you would assume that there would be a future application.

Every new employee coming into the Federal Government who has military service is covered by social security and has this potential "Catch 62" situation built into his or her career; it has to be costed out.

It will continue as long as there is creditable military service.

I think we have got to address it. I would prefer to address the overall retirement problem and then the unfunded liability problem before I look at this situation because this exacerbates the unfunded liability problem if the OPM is correct. The unfunded liability now is a figure in excess of $400 billion, which I am sure you know. We have got to do something about the basic problem before we add to that deficit.

If we could draw the line and say, "all new employees are in a new system and only those that served before the date of the new system are in under the old concept" which excluded social security, then I think we could get some meaningful figures on this and we would have no trouble in adjusting the "Catch 62" for those who are going to continue under the old system through their career.

It may seem complicated, but I don't think you are going to get any numbers anyone can agree on as long as we don't know how many people are going to enter into the Federal Government in the future with this kind of credit.

There are literally millions of veterans who could do that. We cannot get any numbers that we can agree on as long as we have no basis of knowing how many people can claim that credit in the future.

We can make some guesses about those who have entered in the past and get some statistics, but I am not sure the Budget Committee is going to accept them if we are really dealing with a $7 billion increase in the unfunded liability by virtue of passing one bill.

I doubt seriously if it has much future.

Mr. SHEFFEY. We recognize that, Mr. Chairman.

The alternative I suggested would cost one-fifth of that or less, maybe even less than that.

Senator STEVENS. We will look at that. We are constantly told that this does accelerate retirement. We maybe should make it clear that temporary service and military service do not count toward civil service retirement in terms of eligibility for retirement as opposed to payments after retirement. That is a gesture in terms of a compromise that we have not quantified yet. I have asked my staff to quantify that, but if a person from military service entered into a private pension system, he would not have the credit toward the private pension system. He would have the credit toward the social security system.

We are trying to get a basic fix of fairness not only within the Government but vis-a-vis the private sector, too, in our retirement concepts as far as Federal employment is concerned.

Mr. SHEFFEY. I think you can make an argument for that, sir, but not unless military retirement is vested in the short-term people, too, so they can carry their credit with them.

Senator STEVENS. Under our new bill, it would be.

Mr. SHEFFEY. Yes, sir, I understand.

Senator STEVENS. Thank you, very much.

Mr. SHEFFEY. Thank you, sir.

[The prepared statements of Colonel Hennrikus, Mr. Sheffey, and Mr. Nolan follow:]

201 N. Washington Street
Alexandria, Va. 22314 (703) 549-2311

The Retired Officers Association

STATEMENT OF
COLONEL GEORGE F. HENNRIKUS, JR.

DIRECTOR, LEGISLATIVE AFFAIRS
THE RETIRED OFFICERS ASSOCIATION

TO

SUBCOMMITTEE
ON
CIVIL SERVICE AND GENERAL SERVICES
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

****

Military Service Credit
Toward Civil Service Retirement
S.46

****

Dear Mr. Chairman:

I am Colonel George F. Hennrikus, Jr., United States Air Force Retired, Director, Legislative Affairs of The Retired Officers Association (TROA), which has its National Headquarters at 201 North Washington Street, Alexandria, Virginia. Our Association has a membership of over 310,000 retired, former and active duty officers of the seven Uniformed Services. Included in our membership are 32,000 widows of former members. On this occasion I am also pleased to represent the Retired Enlisted Association of Colorado Springs, Colorado.

The Retired Officers Association wishes to thank the Subcommittee for the opportunity to make this statement in support of S.46. This bill would permit military service performed by an individual after 1956 to be credited under the Civil Service retirement program, even though such individual is eligible for Social Security benefits.

The Retired Officers Association urges the committee to favorably report S.46, as it corrects an inequity affecting many retired military personnel, officer and enlisted, who have accepted employment in the federal Civil Service after separating from military service. It also would apply to most veterans who served in the military since 1956 and are now civil service employees.

BACKGROUND

Military service has been creditable under the Civil Service retirement system, both for establishing eligibility for retirement and in computing retirement benefits since enactment of the original Civil Service Retirement Act of May 22, 1920. The Servicemen's and Veterans' Survivor Benefits Act of 1956 provided that active military service on or after January 1, 1957 was "covered employment" under the Social Security system. Thereafter, military personnel were required to participate in the Social Security Program and became eligible for those benefits computed on their lifetime covered earnings, in the same manner as all other persons covered

under that system. That latter Act also provided that if and when an individual became eligible for Social Security benefits based on his military service after December 31, 1956, he could no longer credit that military service under the Civil Service retirement system.

Under present law, a military member who, subsequent to separation from military service is employed in the Civil Service may credit, until age 62, his military years of service in determining eligibility for and the amount of a Civil Service retirement annuity. Similarly, a military retiree who subsequently is employed in the Civil Service may waive his military retired pay and credit the years of military service toward federal civil service retirement. However, at age 62 (when such an individual first becomes eligible for a Social Security annuity), his military years of service after 1956 are dropped from the computation of his Civil Service annuity. This action usually results in a substantial decrease in total income at age 62 since the loss in Civil Service retired pay generally is significantly greater than any gain to be derived from Social Security.

COMPLEXITY OF THE PROBLEM

Current law does not permit an individual to waive his Social Security benefits in order to continue receiving his full Civil Service retirement. The net result is that an individual who has executed an irrevocable waiver of his military retired pay to receive one annuity under the Civil Service retirement program loses credit for those years of military service upon becoming eligible for Social Security at age 62, whether or not he actually receives Social Security benefits. These individuals are not even provided the option to delay applying for Social Security until age 65 in order to receive a larger annuity, The reduction in Civil Service annuities begins upon becoming eligible for Social Security benefits.

The Foreign Service retirement laws authorize credit for prior military service up until January 1, 1977. This additional 20 years of authorized service points out an inequity between different federal retirement systems. Another example is that of the temporary federal employee who can credit those years of temporary employment both toward Social Security and Civil Service retirement.

The Social Security system was established to provide a minimum income security to a covered employee in his retirement years. Civil Service retirees who may have become eligible for Social Security by reason of military service performed since January 1, 1957, frequently incur a large net reduction in retirement income at age 62. Those persons who were compelled to participate in the Social Security Program are now penalized when they become eligible to receive benefits under that very program. It is difficult to envision this being the intention of Congress when the military were originally placed under the Social Security program.

The problem is increasing each year. More and more federal employees are reaching the retirement point have military service since January 1, 1957. Those who have had sufficient Social Security covered employment to qualify for those benefits lose their military service years since that date in the computation of their civil service annuity and thereby experience a considerable net loss in retirement pay at age 62. The sad fact is, many federal employees are not even aware that their military service will no longer count toward Civil Service retirement when they reach age 62.

I would like to bring to the committee's attention the views of the President's Commission on Military Compensation which recommended a Congressional resolution of this long standing problem.

It is, therefore, to this Subcommittee that we appeal for action so that the current inequities in the law can be corrected. We request you favorably report S.46 in order to ensure action by the 97th Congress.

Thank you, Mr. Chairman.

Statement of

John P. Sheffey
Executive Vice President
National Association for Uniformed Services

For the
Subcommittee on Civil Service and General Services
Committee On Governmental Affairs
U.S. Senate

May 18, 1982

On

S. 46

Mr. Chairman, Gentlemen, I am John P. Sheffey, Executive Vice President of the National Association for Uniformed Services (NAUS). Our association's membership is drawn from all the seven uniformed services of the United States; active duty, retired, reserves, veterans, and their spouses or survivors. Our mission is to uphold the security of the United States by supporting activities that preserve and improve the attractiveness of service careers and sustain the morale of the uniformed services.

NAUS is joined by 38 other military, veteran, and civil service organizations and unions in supporting S. 46. These organizations include all the major ones that have members subject to the discrimination against military service in the computation of civil service annuities after age 62 for veterans who are entitled to social security based in any part on their military service.

All those that have not requested to testify separately (or submit statements) have authorized me to speak for them.

S. 46 is designed to relieve an unjustified discrimination against military service in the computation of the annuities of veterans retired from the civil service. At present PL 84-881 requires that any such veteran whose annuity credits include military service after 1956 and who becomes entitled to social security at age 62 or later, must

have his annuity reduced by elimination of credit for that military service. This requirement has become known as "Catch-62".

I believe Senator Thurmond has already submitted for the record a comprehensive analysis of the "Catch-62" problem. I will only summarize its main points and comment on some of the positions taken in the past by the Federal agencies concerned. You will recall that you (Senator Stevens) started hearings on Senator Thurmond's "Catch-62" bill in 1978 (S. 245) but the Civil Service Commission failed to provide essential cost estimates in time to complete the hearings before the 95th Congress adjourned. Since that time the "Catch-62" problem has become better understood both in government and among the employee and annuitant victims. There are now 17 Senators cosponsoring S. 46 with Senator Thurmond, and in the House 59 Representatives are cosponsoring a similar bill, H.R. 116, introduced by Rep. Charles E. Bennett. You have in the enclosure to Senator Thurmond's statement a listing of the 39 organizations with a combined membership of more than 4 million members who support these bills.

PL 84-881 was passed in 1956 to bring the uniformed services under social security. The "Catch-62" provision was inserted at the request of the Civil Service Commission on the grounds that it is contrary to government policy to give dual credit for the same federal employment period for both social security and a federal annuity. This provision was added in conference committee, and there was no opportunity for others to counter this unfounded argument. PL 84-881 itself was providing dual credit for military retirement. All private employment under a private pension plan is given dual credit for the pension and for social security. At the time, social security covered temporary civil service employment was not given dual credit when the temporary employee moved on to permanent employment under the civil service retirement system. However, in 1964 the Civil Service Commission obtained legislation which did provide for dual credit for both social security and civil service annuities for temporary employment. A small back payment is required for 100% credit for temporary employment, but about 90% credit is given without any back payment. This leaves veterans in the civil service

or postal service the only category denied such dual credit. The Civil Service Commission (now the Office of Personnel Management) is in the indefensible position of having fought to give dual credit for safe, well paid temporary civil service employment under social security and fighting ever since against giving dual credit for low paid and dangerous social security covered employment in the uniformed services. If different policies could be justified for these comparable types of social security covered government service, it should be the military service that receives the more favorable treatment, not the reverse as at present. There are about 350,000 former temporary employees in the civil service and postal service who are authorized dual credit without penalty at age 62. There are about three times as many veterans, about one million, including 345,000 Vietnam veterans, who are subject to "Catch-62".

While the greatest "Catch-62" inequity is the allowance of dual credit for social security covered temporary federal employment while denying it for social security covered military service, as cited above, there are further inequities. Some agencies have obtained exceptions for all or part of their employees who are veterans. The Foreign Service obtained a 20-year exemption for veterans under its retirement system and will penalize only those with military service after 1976. The Environmental Protection Agency, the Federal Water Pollution Control Administration and the Consumer Product Safety commission obtained exemptions for many of their original employees when those agencies were created. In fairness, the policy should be the same for all.

A large number of civil service employees subject to "Catch-62" have been poorly counseled by their personnel officers and have retired unaware of the annuity reductions awaiting them at age 62. It took me nearly four years to pursuade the OPM to revise its 1975 pamphlet "Retired Military Personnel In Federal Jobs", which did not even mention "Catch-62". It was finally revised in 1980.

To make the situation even more unfair, enforcement of PL 84-881 is inexact, and many individuals to whom "Catch-62" should apply are not identified and their annuities are not reduced at age 62. Those who have waived military retired pay to include their

military service in annuity computations are more readily identified and their annuities reduced. Many thousands of annuitants with less than 20 years of military service counted in their annuity computations escape the legally required reductions at age 62 entirely. They are particularly likely to escape detection when they do not apply for social security or when their military service alone is insufficient to qualify them for social security and is combined with other covered employment subsequent to civil service retirement to qualify for social security benefits. If such individuals are belatedly identified, as many are, they are required to refund overpayments -- often quite large amounts. In any event, a significant amount of the "savings" in the current "Catch-62" law are not being realized.

A widow's benefit (the Survivor's Benefit) is calculated at 55 percent of the annuity of her sponsor. If he dies before reaching his 62nd birthday, on the date he would have reached it her benefit is required by law to be reduced to 55 percent of what his reduced annuity would have been at 62 had he lived. This is required although her dead husband paid annuity reductions for an unreduced benefit. Actually, few such widows, if any, are identified.

In both 1978 and 1980 General Accounting Office urged the OPM to establish a reliable method of identifying annuitants subject to "Catch-62". This has not been accomplished. I am following the cases of many such unidentified annuitants myself, some who are 5 years or more overdue for "Catch-62" reductions. The two-dozen or so cases brought to my attention can only be a fraction of one percent of the total.

One annuitant over due a "Catch-62" reduction recently informed me that after not being identified for 4 years after age 62 he notified the OPM by registered letter. At this date, another year later, his annuity still has not been reduced. I doubt that it will ever be possible to have a 100% effective enforcement system.

Attached to my statement is a specific example of a 63 year old annuitant who recently took a $12,000/year reduction in his civil service annuity without being able to draw one cent of social security because he is still working. His unusuable social security entitlement is about one-fourth the amount of his annuity

reduction. The OPM did not identify him, he notified the retirement office himself eight months after the reduction was due because of the potential tax problems and growing refund obligation. As it was, he had to refund more than $8,000. This case illustrates all the major injustices of the situation -- its basic unfairness, its discrimination against ex-military personnel in the civil service, its drastic impact on the retirement incomes of some victims in their retirement years, and the random enforcement of the "Catch-62" law.

You should bear in mind that at least 80% of all civil service and postal service employees sooner or later qualify for social security. Only about 30% of all employees are subject to "Catch-62". Therefore about half of all annuitants will receive social security payments without penalty at age 62 because they had no social security covered military service, and about one-third will have their annuities substantially reduced at age 62 if they are identified by the OPM. Twenty percent are not involved with the problem because they never qualify for social security. This results in the following variations in annuitants' incomes:

(see following page)

	ANNUITY & SOCIAL SECURITY BASE	ANNUITY BEFORE 62 (OR UNTIL LATER BECOMING ELIGIBLE FOR SOCIAL SECURITY)	ANNUITY AFTER AGE 62 (OR AFTER LATER BECOMING ELIGIBLE FOR SOCIAL SECURITY)
1.	Civil service only with or without temporary civil service not qualified for social security).	Full annuity based on all federal service.	Full annuity based on all federal service.
2.	Civil service and sufficient private employment to qualify for social security.	Full annuity based on all federal service.	Full annuity based on all federal service plus social security.
3.	Civil service, 1 - 19 years of military service, not qualified for social security.	Full annuity based on all federal service.	Full annuity based on all federal service (no "Catch-62" reduction).
4.	Civil service, temporary civil service and enough additional private employment to qualify for social security.	Full annuity based on all federal service.	Full annuity based on all federal service plus social security.
5.	Civil service, 1 to 19 years military service, and enough additional private employment to qualify for social security. **	Full annuity based on all federal service.	Annuity reduced about 3% * for each year of military service after 1956, plus social security.
6.	Civil service, temporary civil service, 1 to 19 years military service (qualified for social security).	Full annuity based on all federal service.	Annuity reduced about 3% * for each year of military service after 1956, plus social security.
7.	Civil service plus 20 or more years military service, military retirement pay waived for combined annuity.	Full annuity based on all federal service.	Annuity reduced about 3% * for each year of military service after 1956, plus social security.
8.	Civil service plus 20 or more years of military service, separate annuities **	Military retired pay plus annuity based on civil service only (usually quite small).	Military retired pay plus annuity based on civil service only (usually quite small), plus social security.
9.	Civil service, active and reserve military duty sufficient for reserve retirement, plus sufficient social security covered employment to qualify for social security.	Full annuity based on all federal service, plus reserve retired pay after age 60.	Annuity reduced about 3% * for each year of active duty military service after 1956, full reserve retired pay, plus social security.

* Percent reduction for each individual usually varies a little over 3% for each year of military service according to the ratio of the number of years of military service to the number of years of civil service and other factors.

** Some individuals with military service also have temporary civil service.

Of all the combinations of post-62 incomes listed above, the largest for the same total government service and grade usually go to the 2nd, 4th and 9th categories. The smallest incomes go to the 3rd category. The 7th and 8th categories -- military retirees -- have great variations amoung individuals because military retired pay varies greatly with rank and date of retirement, and annuity entitlements vary equally as much with length of civil service and grade attainment. Most military retiree "Catch-62" victims are in the enlisted grades (about 80%) with 15 or more years of civil service. For most in all grades, either combined or separate annuities result in lower income after age 62 than enjoyed by category 2 or 4 for the same total government service.

Past and present opposition to "Catch-62" relief bills has come mostly from OPM and the Office of Management and Budget (OMB). It has been based on cost. The only cost estimate thus far was produced by the CSC in 1978 and was obviously designed to support opposition to relief of "Catch-62" by making the costs appear as high as possible. Further, OPM in the past has consistently defended its opposition with arguments indicating bias against the veteran and military retiree in the civil service. Following are some of my reasons for this view:

1. The statistical sample on which the estimate was based comprised only 105 cases. Sixty-five percent of the sample were military retirees although only about 10% of all civil service and postal service employees with military service are military retirees. Only 22% of the sample had less than 10 years military service, although the vast majority of federal civilian employees with military service are former draftees with only two to three years of service. Therefore, the average length of military service of "Catch-62" victims are highly exaggerated, thus greatly exaggerating the estimated cost of relief. Extrapolating from this unrepresentative group, annual cost estimates were projected annually for 25 years into the future with an exponentially compounded inflation factor. No reduction was made for the very large total of waived military retired pay that would partially offset the costs. These inflated figures were then presented in the context of 1978 dollars, without identifying them as being three to four times their constant dollar

value. The same estimate reduced to constant 1978 dollars reduced by the estimated savings in military retired pay, shows an average cost of about $50 million/year over the same period.

2. The CSC estimate made no reference to the corresponding costs of giving annuity credit for [illegible]ial security covered temporary civil service. They certainly approach one-third the costs of giving credit for directly comparable social security covered military service. Apparently the OPM does not regard these costs as a budgetary problem.

3. The report indicated that the average "Catch-62" victim receives as much in social security as he loses in annuity reduction. This means, of course, that a very large number do not. Neither did it compare him with the vast majority of annuitants for whom social security is wholly additive or point out that his social security entitlement is usually based mostly on private employment.

4. The report did not place the estimated "Catch-62" relief costs in the context of total civil service retirement costs. While I have no exact basis for comparison, they have to be an insignificant percentage.

5. The OPM has repeatedly informed the Congress and other agencies that credit for military service permits "early retirement" from the civil service. This is simply not true. It takes exactly the same number of total years of government service for anyone to choose any civil service retirement option. I am not aware of any instance in which the OPM cited credit for temporary civil service as permitting "early retirement".

6. Although aware of the situation, the OPM has not incorporated in its studies of the "Catch-62" problem the fact that almost all long-service military personnel enter the civil service in grades well below their age counterparts without military service. The average former officer enters 4 grades below and the average former non-commissioned officer enters 2 grades below. Few overcome this gap, and their civil service annuities average significantly below those of all other annuitants with the same total federal service, even without the "Catch-62" reduction.

7. By omission of the fact that all civil service annuity costs for crediting military service are paid by the U.S. Treasury, OPM cost estimates for relief of "Catch-62" have given the impression that they would be costs to the Civil Service Retirement Fund, which they are not. Incidentally, refunds for "Catch-62" overpayments are required to be made to the Retirement Fund although the Treasury originally paid them in its annual payment to the Retirement Fund for military service annuity credit.

In 1978 the Congressional Budget Office estimated the cost of "Catch-62" relief as $7 million in FY 1983 and $8.4 million in FY 1984. They did not project beyond that date, but obviously the costs will increase as the large number of Vietnam era veterans in government retire and reach age 62. Thereafter, costs will decline rapidly because of the drastic decrease in potential "Catch-62" victims with the termination of the draft.

Any long-range projection of "Catch-62" relief costs is relatively meaningless. It is obvious that there must be some form of offset of social security and federal retirement for all entitled to both. I believe that the only practicable approach is to remove the "Catch-62" penalty now and put the treatment of military service and temporary civil service on exactly the same basis. Only then can an equitable across-the-board linkage of social security and federal retirement be established.

Several alternatives to S. 46 have been proposed. The General Accounting Office acknowledges that "Catch-62" hurts some annuitants severely and proposes that they be given the choice of either waiving all social security and keeping unreduced annuities or accepting the existing "Catch-62" policy. This solution would help a few annuitants avoid a net reduction in income, but would compound the existing injustices. It would require the annuitant to give up social security earned in both government and private employment to avoid reduction of his government annuity. The most unfair aspect is that it would apply a gross income policy only to the narrow group with military service and to no one else. All the rest of the 80% of annuitants eligible for social security through temporary civil service and private employment would continue to have it wholly additive to their annuities. In addition, all the other inequities in comparison with other annuitants described above would remain unchanged.

A more equitable and less costly alternative would be to offset "Catch-62" victim's annuities only by a dollar amount equal to the amount of his social security entitlement attributable to military service. The Social Security Administration has provided a simple formula by which this amount could be calculated:

$$\text{Actual social security benefit} \times \frac{\text{Credits for post-1956 Military Service}}{\text{Total Social Security Credits}}$$

Such a solution to the "Catch-62" problem, however, would leave unchanged the current discrimination against the veteran in comparison with the former temporary employee. That is, social security based on military service would be offset, but social security based on temporary civil service would not. For those "Catch-62" victims whose social security is based entirely on military service, the offset would be 100% of social security. This would leave their post-62 income that much below their annuitant counterpart in grade and service whose social security is based on temporary civil service and/or private employment. This solution would also continue to leave the "Catch-62" victim subject to double jeopardy if there is a general offset of social security and Federal retirement established in the future.

Your (Senator Stevens') civil service retirement reform bill, as currently drafted, would eliminate the "Catch-62" situation for new employees, but would take 30 or more years. Practically none of the million veterans subject to "Catch-62" now employed or already retired would be helped. Your bill is not a solution to the "Catch-62" problem, and I do not believe it can be made to be one.

As you well know, your bill is controversial enough already. It doesn't need a complicated additional problem that is of concern only to veterans in the civil service.

We in the military, veteran, and civil service organizations supporting S. 46 have studied the "Catch-62" problem for many years. We are unanimous in our convictions that:

- it was established on the erroneous premise that social security is a federal retirement plan equivalent to the civil service retirement plan. Of course, it is not.

- it is unfair to employees who have once served their country in uniform.

- if not relieved, the "Catch-62" problem will become an ever-increasing irritant as the number of affected annuitants grows.

- that full elimination of "Catch-62" as proposed in S. 46 is the only way to avoid continuing inequities in annuity credits for military service.

Therefore, we recommend approval of S. 46 without further delay.

If this Committee does not find S. 46 the appropriate solution to the ever-increasing "Catch-62" problem, we urge that you request the OPM and the OMB to prepare a better one for your approval without further delay.

Thank you.

United States
Office of
Personnel Management

Washington, D.C. 20415

DEC - 8 1981

In Reply Refer To

Your Reference

Dear Mr.

This is to confirm our recent telephone conversation in which we discussed the recomputation of your civil service annuity. As you are aware, the Retirement law requires that we recompute the annuity of a retiree, to delete credit for military service after December 31, 1956, if the retiree becomes entitled to Social Security benefits, at age 62. The Social Security Administration has advised us that you are entitled to their benefits as of April 1, 1981, so your annuity must be recomputed effective as of that date.

Your adjusted gross rate of annuity, effective April 1, 1981, is $2868.00 per month. Since this adjustment will not appear until your check dated January 1, 1982, you have been overpaid for the period April 1, 1981 through November 30, 1981. The amount of the overpayment is computed as follows:

$3894.00	(gross monthly rate paid)
- 2868.00	(gross monthly rate due)
$1026.00	(monthly overpayment)
$1026.00	
x 8	(number of months overpaid)
8208.00	Total overpayment

So that we may cancel this overpayment, please forward a check or money order, payable to the U. S. Office of Personnel Management, for the amount of $8208.00. A post paid envelope is enclosed for your remittance. As we previously discussed, if we receive this payment by December 23, 1981, your initial W-2 will reflect the adjustment in your income.

If you believe that the action taken on your claim is improper you may request reconsideration of our decision according to the attached procedures.

Sincerely yours,

R. J. Egan

Robert J. Egan, Assistant Chief
Annuitant Services Division

CSM 114-24-3
January 1980

STATEMENT IN SUPPORT OF S-46 TO AMEND PUBLIC LAW 84-881

Before the

Subcommittee on Civil Service,
Post Office and General Services
Governmental Affairs Committee

UNITED STATES SENATE

18 May 1982

by

Robert W. Nolan

presenting the views of the

Fleet Reserve Association
Air Force Sergeants Association

FLEET RESERVE ASSOCIATION
Serving Career Enlisted Personnel of the
U.S. NAVY • U.S. MARINE CORPS • U.S. COAST GUARD
1303 New Hampshire Avenue, N.W., Washington, D.C. 20036
(202) 785-2768

INTRODUCTION

Mr. Chairman and members of this distinguished Committee, I am Robert W. Nolan, the National Executive Secretary of the Fleet Reserve Association. The FRA is an organization comprised of 156,455 career enlisted personnel, active duty and retired, of the U.S. Navy, Marine Corps and Coast Guard. As a retired U. S. Navy Chief Petty Officer it is my privilege to present their views on the gross inequity of law which has commonly become known as the "Catch-62" issue.

In cooperation with the Committee and to save time, I am honored to also represent the 150,000 Sergeants of the Air Force Sergeants Association. Retired Chief Master Sergeant of the U. S. Air Force Donald L. Harlow, the Executive Director of the Air Force Sergeants Association, is submitting their detailed statement for the record.

The persons I am speaking for today, are either serving actively in, or retired from, the military services. They truly represent the career enlisted cadre of our Armed Forces.

The enlisted personnel of the Armed Services applaud U. S. Senator Strom Thurmond for his energetic and determined pursuit of the resolution of this issue. They fully support the provisions of S. 46. We sincerely appreciate this Committee's consideration of this important legislation. We are confident that your impartial and knowledgeable consideration of the proposal will result in the abolition of an unintentional inequity against service personnel.

MILITARY SERVICE AND SOCIAL SECURITY COVERAGE

Prior to 1 January 1957 military personnel did not have Social Security coverage by virtue of their military service. During World War II all personnel who served in the Armed Forces were given gratuitous Social Security coverage equal to and based upon a salary of $160.00 a month. However, the law at that time stipulated if one subsequently credits his wartime service to a Federal retire-

ment, one cannot use the wartime gratuitous Social Security credits towards qualification for Social Security benefits. Thus, abiding by a previously practiced policy of dual credit for the same employment period.

In the years following World War II, the United States' position as the Free World's leader demanded large standing Armed Services. To maintain those Service strengths the Selective Service System was continued. Therefore, literally millions of young Americans fulfilled their obligation of military service. They were not covered by Social Security. They were in fact being denied the Social Security earnings they would normally be earning in civilian employment. This practice continued for a decade. In 1956, the inequity of "zero-earnings" for military service was recognized and corrected by the U. S. Congress. The new law, granting Social Security earnings for military service became effective 1 January 1957. Military personnel began to contribute to Social Security. Needless to say, this was of obvious benefit to military careerists but, I remind you, the law was not enacted primarily for the benefit of careerists but the draftees. Today, that law, viewed then as beneficial to military careerists, works a cruel inequity on the military retiree who would continue to serve his nation as a civilian Federal employee.

THE INEQUITY

In today's world it is economically mandatory that military retirees enter the civilian labor market promptly upon military retirement. Very few military retirees indeed, can subsist totally upon their military retirement pay. Department of Defense figures reveal the average enlisted service person retires at age 42 with 21 years of service. As a civilian, he may continue to seek Federal employment. As a group, military retirees are viewed by employers as stable, trained, motivated, productive employees. Some military retirees

choose to pursue federal civilian employment. Current federal law provides that a government employee may retire at 55 years of age if he has thirty years of federal service. This provision of law is attractive to many military retirees who are subsequently employed in the Federal government. They see the possibility of combining their military and civilian federal service to qualify for the 30 years of total federal service. However, for those military retirees who served on active duty after 31 December 1956 such practice could prove to be most unwise in the long run. Because, under the Social Security Act a military retiree at age 62 cannot credit any military service performed after 31 December 1956 towards a combined military/civilian Federal retirement!

All Civil Service and Postal Service retirees who are veterans and have combined their military service and civilian Federal service for calculation of their civil service retirement must, at age 62 when they are entitled to receive Social Security benefits, accept a recalculation of their Civil Service retirement pay whereby any military service after 31 December 1956 is deducted from their retirement calculation. This results in an average reduction in one's retirement of slightly more than three percent for each year of military service after December 31, 1956.

THE JUSTIFICATION OF THE SOLUTION

It has been the contention of the Office of Personnel Management that credit for both social security and civil service retirement for the same period of federal service is "double credit" and that practice is in violation of laws prohibiting crediting the same service to two federal retirement systems. The basic fact that the Social Security System is not a federal retirement system seems to elude their thinking. However, that basic fact proves the fallacy of their argument.

Of the approximate 2.9 million civil service and postal employees, approximately forty-five percent have served in the military. Nearly one million of these have served in the military since 31 December 1956. But only 14 percent of these veterans are military retirees and they bear the brunt of the "Catch-62" inequity although all veterans will suffer to some degree when they become eligible for Social Security benefits. It is obvious that current law does not provide for the equitable treatment of all veterans. This is grossly exemplified in the treatment of "temporary" federal employees who earn permanent employee status. They may credit all of their temporary employment towards civil service retirement without penalty at age 62 while retaining their social security credits earned as "temporary" employees!

The President's Commission on Military Compensation recommended, in its report of 10 April 1978, that the Administration and the Congress quickly resolve the "Catch-62" inequity. It is now four years later and no true progress has been made.

With the current state of the Social Security trust fund and the pending report of the National Committee on Social Security Reform, whose report is due in December 1982, it is obvious there will be changes to the system. The Department of Defense has for years recommended an offset in military retired pay to compensate for militarily-earned Social Security. We believe it is inevitable that this change will be made in the future. Therefore, it is imperative that the "Catch-62" issue be resolved by the passage of S. 46 or H.R. 116 as only by this action can there be an equitable relationship between Social Security and the federal retirement systems in the future.

CONCLUSION

Mr. Chairman, this concludes our statement. We sincerely appreciate the opportunity to appear and present the views of the retired enlisted community.

The fact that under our representative form of government we can do so, explains why the members of our Associations have chosen to devote a major portion of their adult lives in service to our Country. On behalf of the more than 306,000 citizens I am speaking for, I thank you.

Senator STEVENS. The hearing is adjourned.

[Whereupon, at 10:12 a.m., the subcommittee recessed, to reconvene at the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

97TH CONGRESS
1ST SESSION

S. 46

To amend title 5 of the United States Code to permit present and former civilian employees of the Government to receive civil service annuity credit for retirement purposes for periods of military service to the United States as was covered by social security, regardless of eligibility for social security benefits.

IN THE SENATE OF THE UNITED STATES

JANUARY 5, 1981

Mr. THURMOND introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

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A BILL

To amend title 5 of the United States Code to permit present and former civilian employees of the Government to receive civil service annuity credit for retirement purposes for periods of military service to the United States as was covered by social security, regardless of eligibility for social security benefits.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 8332(j) of title 5, United States Code, be amended—

(1) by striking out "military service, except military service covered by military leave with pay from a civilian position, performed by an individual after December 1956," in the first sentence thereof; and

(2) by striking out "the military service or" in the second sentence thereof.

(b) The amendment made by subsection (a) shall apply only in the case of annuities to which individuals become entitled on or after the date of the enactment of this Act.

(c)(1) Upon the written request to the United States Civil Service Commission (filed in such form and manner and containing such information as the Civil Service Commission shall by regulation prescribe) by any individual receiving an annuity before the date of the enactment of this Act to have the amendment made by subsection (a) apply to such annuity—

(A) the provisions of section 8332(j) of title 5, United States Code, as amended by subsection (a), shall apply to such annuity, and

(B) the Civil Service Commission shall recompute such annuity by redetermining the aggregate period of service on which the annuity is based so as to include military service excluded under such section 8332(j) as in effect on the day before such date of enactment.

(2) Any annuity which is recomputed under paragraph (1) shall be effective with respect to payments of such annuity for months after the month in which this Act is enacted and no payment of any such annuity for any month prior to such month shall be considered erroneous by reason of this paragraph.

(3) The Civil Service Commission shall take such actions as may be necessary to notify individuals receiving an annuity before the date of the enactment of this Act of the provisions of this section.

STATEMENT BY SENATOR DeCONCINI ON THE NEED FOR S. 46

MAY 17, 1982

As a cosponsor of S. 46 and as a member of the Senate Veterans' Affairs Committee, I am pleased to have this opportunity to thank the distinguished Chairman of the Subcommittee on Civil Service, Post Office and General Services of the Governmental Affairs Committee for conducting hearings to explore the inequity known as Catch-62. I would also like to commend my friend and colleague, Senator Thurmond, sponsor of S. 46, for his persistent efforts to correct this inequity.

The term "Catch-62" refers to a provision added to the social security law (P.L. 84-881) by Congress in 1956 which requires that at age 62 and thereafter, all civil service retirees who are veterans and have combined their military service and civil service for calculation must accept a recomputation of their annuities, omitting all credit for their military service after 1956. This was justified on the basis that without such recomputation, veterans would receive credit for both social security and their annuity for the same years of service. The Civil Service Commission at that time took the position that this would be in violation of laws which preclude crediting service to two retirement systems at the same time.

However, the simple fact of the matter that was ignored in 1956 was that the social security system is not a retirement system and was never intended to be one. Furthermore, many other categories of government employees do indeed receive credit in the social security system and the civil service retirement system for the same work period.

Catch-62 affects nearly one million Americans who have been employed in the civil service or postal service, including 345,000 Vietnam veterans.

In addition, the penalty also effects the survivor's benefits of these individuals. The effects of Catch-62 pose even further inequities because of inexact enforcement of P.L. 84-881.

S. 46 provides a very simple remedy to Catch-62. It eliminates the procedure of recomputing the civil service retiree's annuity at age 62 to remove credit for social security covered military service. It will allow the retiree's annuity to continue without change after age 62, which, after all, is a time of life when most people's income becomes more restricted and every penny counts toward the ability to make it financially from month to month.

In sum, I urge the Subcommittee to examine the need for this legislation very closely. It is my firm belief that such close examination will result in the Subcommittee's strong endorsement of S. 46.

Statement of Senator Goldwater before
Senator Ted Stevens, Chairman of the Subcommittee on Civil Service
and Postal Service, Senate Committee on
Governmental Affairs

May 18, 1982

Mr. Chairman, while it is impossible for me to appear today as a witness because of a previous commitment, I want to express my strong support for Senator Thurmond's bill, S. 46.

Corrective action on this situation is long overdue. You are well aware that Public Law 84-881 requires that civil service retirees, when they become eligible for social security, lose annuity credit for their military service after 1956. Particularly affected by this unique twist of the law are those military retirees who join the civil service. Military retirees who do not enter the civil service receive both their full retired pay and social security payments based upon the same periods of military service.

Mr. Chairman, I submit that we have enough potential discouragements to military retirees so that many of them will not join the Civil Service in any case. The Dual Compensation Act, by itself, effectively prevents most military retirees from even considering employment with the Civil Service, to say nothing of remaining with the Civil Service long enough to reach retirement. There are many reasons why our Civil Service would be well served by employing substantial numbers of military retirees, but I will not attempt to go into that today since that is not the subject of this particular hearing.

The situation which we are confronted with today is one which was probably created by some faceless bureaucrat who decided to extract another ounce of blood from the military community. While there are problems with the social security system which need to be corrected, the legislation under discussion today is not a problem with that system. If the military retiree paid into the social security system, in my view, he is entitled to the results of those payments. He is likewise entitled to his hard-earned military retirement pay.

This situation is described as "Catch 62" since it takes effect at age 62 and derives the name from a novel written in 1955, "Catch 22". In that novel, there seemed to be no escape from strange situations, or, in other words, "You can't get there from here." What is boils down to is this: Unlike the all-military careerist or the all-civil service careerist, the Catch 62 victim is denied retirement income after age 62 based on all his government service just because he transfered from the military to the civil service.

The fact that you are holding hearings today on this issue is noteworthy and I strongly urge you to move forward rapidly to correct this obvious inequity. There are various proposals under discussion to correct, in one form of another, the social security system. S. 46 will not correct the problems associated with the social security system but, it can, by itself, correct an injustice which affects many of our retired military personnel. Thank you Mr. Chairman.

STATEMENT

BY

DONALD L. HARLOW

EXECUTIVE DIRECTOR

AIR FORCE SERGEANTS ASSOCIATION

BEFORE THE

UNITED STATES SENATE SUBCOMMITTEE ON

CIVIL SERVICE, POST OFFICE AND GENEPAL SERVICES

PERTAINING TO

SENATE BILL S. 46 (CATCH 62)

MAY 12, 1982

Air Force Sergeants Association

INTERNATIONAL HEADQUARTERS, POST OFFICE BOX 31050, TEMPLE HILLS, MD 20748

Mr. Chairman, distinguished members of the subcommittee;

I am Donald L. Harlow, Executive Director for the Air Force Sergeants Association and the primary spokesman on legislative matters for 150,000 members, composed of enlisted men and women of the active duty force, Air National Guard, Air Force Reserves, retirees from all components and their dependents.

After several years of efforts in attempting to resolve the inequitable provisions of Public-Law 84-881, by our association and others, we are indeed grateful to you Mr. Chairman, in scheduling this hearing on what is commonly known as "Catch 62."

The Air Force Sergeants Association is fully supportive of Senate Bill S. 46, introduced by your colleague, Senator Strom Thurmond. As he stated during introduction of his bill, in passing a modification to the Social Security Law, the Congress inadvertently created an injustice to veterans which requires that at age 62, and thereafter, all civil service retirees who are veterans and have combined their military and civil service for calculation of their civil service annuities must involuntarily accept a recomputation of their annuities, omitting all credit for their military service after 1956. This is because of their eligibility for social security benefits due in any part to military service.

These annuity reductions take place even though the retiree may not receive social security payments because he is working or would prefer to delay receiving them to age 65 for maximum payments, as all others are allowed to do.

This enforced substitution of a less advantageous civil service annuity when a veteran has properly qualified for an annuity based upon all his government employment and the average of his highest three years' pay was placed in PL 84-88 without adequate hearings or evaluation of its long term impact.

While the intent of the law was to provide military personnel a portable social security benefit and to increase their incomes in retirement, the Civil Service Commission (CSC), now the Office of Personnel Management (OPM) objected to veterans' receiving credit for both social security and their annuity for the same years of service. CSC took the position that this would be a "double credit" in violation of laws which preclude crediting service to two retirement systems at the same time. The fallacy in this objection is that the Social Security System is not a retirement system, and was never so intended.

It was originated in 1936 as an old age benefit to keep persons in their declining years from becoming indigent. It was expected that social security recipients would have additional income from part-time work, personal savings and retirement plans.

In order to qualify for a Civil Service combined annuity, a veteran entitled to military retired pay must waive all rights to it and accept only the annuity. There is no double credit for the military service. It is only counted for Civil Service retirement. Military retirees who DO NOT enter the Civil Service receive both their full retired pay and social security payments based upon the same periods of military service.

Temporary federal employees are also simultaneously covered by the Social Security System.

Under Public-Law 91-360, temporary employees who acquire permanent employee status and come under the Civil Service retirement system may credit all their temporary employment for retirement purposes without penalty at age 62, and also retain their social security entitlements based upon their temporary employment.

More than 350,000 temporary Civil Service employees have become permanent employees, and the number is increasing daily. Approximately 45 percent of the 2.9 million Civil Service and Postal Service employees have had some military service. Nearly 1 million, including 345,000 Vietnam Veterans, have had service after 1956, and are subject to "Catch 62." Only 14 percent of these veterans are military retirees, but all will suffer from "Catch 62" when they become eligible for social security.

At present, Federal Civil Service retirees who have had no military service after 1956 do not suffer annuity reductions at age 62 if they are entitled to social security (or at any later age if they become so entitled.) About 60 percent of Civil Service annuitants are entitled to social security payments in addition to their annuities.

Military retirees who do not enter Civil Service draw retired pay from the date of their retirement and social security at age 62 or later, when eligible. The uniformed services have been required to contribute to social security since 1956, and any military retiree with 10 years' service after 1956 is eligible for social security on the basis of military service alone.

It is a matter of equity that all employees of the Civil Service should receive equal consideration on retirement for service rendered to the U. S. Government, whether military or civil. This was a principle of the Civil Service Retirement Act of 1920 and has remained constant except for the single anomaly "Catch 62" created in 1956 by Section 8332 (j), Title 5, PL 84-881. Some agencies have obtained exceptions for all or part of their employees who are veterans. These are the Foreign Service, the Environmental Protection Agency, the Federal Water Pollution Control Administration and the Consumer Produce Safety Commission. In fairness, the policy should be the same for all.

A Civil Service retiree who served in the uniformed services for five years after 1956, and has his required total of 40 quarters, will lose about 17 percent of his annuity at age 62. A Federal Employee who retired in 1979, with 11 years in the uniformed services after 1956, would find his annuity reduced by about 37 percent. The social security income usually is far less than the lost annuity income.

The non-veteran annuitant entitled to social security, as most are, is always better off than the veteran. A repeal of "Catch 62" will bring the veteran only up to the income level of the non-veteran, not above it.

The President's Commission on Military Compensation urged the Administration and the Congress on April 10, 1978 to resolve the "Catch 62" problem expeditiously. It is inconceivable to us as to why that recommendation has been ignored and our elected officials have permitted this inequity to exist knowing full well it penalizes those who have fulfilled their obligation to this nation through service in our defense forces.

Even more unfortunate are the individuals who have long periods of military service (some up to 19 years) but did not qualify for military retirement before entering the Civil Service. Eighty-six percent of the veterans in the Civil Service are not military retirees. They have no choice but to count all their government service in their annuity computations and suffer the

98-431 O - 82 - 7

"Catch 62" reductions. Their credits for social security are usually based on low incomes in the military services, and their social security entitlements at age 62 are very small. In the typical case, the social security check offsets only a fraction of the annuity loss.

Situations which have cropped up over the past several months makes passage of S. 46 even more important. Letters have been received from members of our association pertaining to their receiving notification of money owed to the government due to late notification of the recomputation of their annuity under the provisions of PL 84-811, in that they have received annuity checks over several months without such recomputation being implemented at the time they reached 62. For many who are not aware of the "Catch 62" law, this comes as a shock and to some imposes an additional financial burden upon them and their families.

Mr. Chairman, the Air Force Sergeants Association fully supports the provisions of S. 46, and would urge the subcommittee to favorably report out this legislation and urge its expeditious passage by the United States Senate.

Thank you for this opportunity to present our position on this important issue and I will be pleased to respond to any questions concerning the "Catch 62" matter.

END

Statement of

The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

STATEMENT OF JAMES G. BOURIE
DIRECTOR OF ECONOMICS
THE AMERICAN LEGION

to the

SUBCOMMITTEE ON CIVIL SERVICE AND GENERAL SERVICES
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

Mr. Chairman and members of this Subcommittee:

The American Legion thanks you for allowing us the time to present its views on the matter known as "Catch-62". Pertinent resolutions adopted by The American Legion are attached with the request that they be made part of the record.

In 1956, Congress passed an amendment to the Social Security law (P.L. 84-881) which provided that at age 62 or thereafter civil service retirees who are veterans must forfeit annuity credit for their military service when they are or later become entitled to Social Security. All Civil Service and Postal Service retirees who are veterans and have combined their military service and civil service for calculation of their civil service annuities, when their social security benefits are due in any part to military service, must accept a recomputation of their annuities, omitting all credit for their military service after 1956. The annuity loss averages just over 3 percent for each year of military service after 1956. It is estimated that approximately 45 percent of the 2.5

million civil service and postal service employees have some military service; and nearly 1 million, including over 300,000 Vietnam era veterans, have had service after 1956 and are subject to the loss of annuity.

Mr. Chairman, in contrast, federal civil service retirees who have had no military service after 1956 do not suffer annuity reductions at age 62 if they are entitled to social security. Further, unlike the all-military careerist or the all-civil service careerist, the Catch-62 veteran is denied retirement income after age 62 based on all government service merely because he transferred from military to civil service. The rationale behind P.L. 84-881 centered around the argument that credit for both social security and an annuity for the same years of military service would be a "double credit". The fatal flaw in that argument is, however, that the Social Security System is not a retirement system; nor was it ever intended to be.

In practical application, Mr. Chairman, the veteran who combines his annuity receives less than the non-veteran. Thus, only the veteran is singled out for this harsh and grossly inequitable treatment and, in effect, penalizes the veteran for serving his country.

The American Legion, of course, vigorously objects to this situation in that veterans are singled out for improper treatment. We are not alone as nearly 40 veteran and other groups also are in opposition. Further, the President's Commission on Military Compensation urged the Administration and the Congress in 1978 to resolve the Catch-62 problem expeditiously. Too, the General Accounting Office submitted a report in 1980 which acknowledged

the inequity of Catch-62. Additionally, The American Legion has printed and distributed over 2,000 pamphlets detailing this issue and has received hundreds of letters from civil service employees and retirees who are shocked and outraged that their annuity has been reduced or is about to be reduced.

Mr. Chairman, we are all to keenly aware that these are difficult budgetary times and that the cost to rectify this injustice would be over $5 million with a 20 year projected cost in excess of $3 billion. Nonetheless, the situation is grossly unfair to veterans without substantive reason and, again, penalizes those who serve their country.

NATIONAL EXECUTIVE COMMITTEE
OF THE AMERICAN LEGION
INDIANAPOLIS, INDIANA, OCTOBER 15-16, 1980

RESOLUTION NO. : 28

COMMITTEE : ECONOMICS

SUBJECT : SUPPORT LEGISLATION TO REPEAL INEQUITABLE REQUIREMENT, KNOWN AS "CATCH-62," TO RECOMPUTE CERTAIN CIVIL SERVICE ANNUITIES

WHEREAS, The Congress, in modifying PL 84-881 (the Social Security Law) in 1956 provided that all Civil Service retirees who combined time in military service and civil service employment for computation of civil service annuities must, at age 62, accept a recomputation of their annuities, deleting all years of military service since 1956, thus inadvertently creating an undeserved hardship for these veterans, a provision known as "Catch-62,"; and

WHEREAS, The intent of the law in 1956 was to provide those who served in the military with a Social Security benefit to assist them in their retirement years, but the result has been the reverse for many who were employed by the United States government; and

WHEREAS, By present law the reductions become effective at age 62 even though these retirees may not be receiving Social Security payments for various reasons, and even when Social Security benefits are received, the annuity losses are often far greater than any Social Security payments, with some veterans retiring in 1980 subject to more than a 50 percent loss of annuity, a loss which increases for each year of military service since 1956; and

WHEREAS, The Report of the President's Commission on Military Compensation on April 10, 1978 urged the Administration and the Congress to expeditiously resolve, "the commonly described 'Catch-62' problem," and Congress has passed legislation to correct this situation for veterans in selected government agencies; now therefore be it

RESOLVED, By the National Executive Committee of The American Legion in regular meeting assembled in Indianapolis, Indiana, on October 15-16, 1980, that The American Legion seek legislation to eliminate the inequities now contained in PL 84-881, and known as "Catch-62" and permit present and former civilian employees of the United States government to receive civil service annuity credit for retirement purposes for all their periods of service to the United States (Federal government, uniformed services and District of Columbia government), including such service which was covered by Social Security, regardless of eligibility for Social Security benefits.

SIXTY-THIRD ANNUAL NATIONAL CONVENTION
OF
THE AMERICAN LEGION
AUGUST 29-SEPTEMBER 3, 1981
HONOLULU, HAWAII

RESOLUTION NO. : 393

COMMITTEE : ECONOMICS

SUBJECT : GRANT FULL CREDIT FOR MILITARY SERVICE IN FEDERAL RETIREMENT BENEFITS: CORRECT "CATCH-62"

WHEREAS, The Congress, in modifying PL 84-881 (the Social Security law) in 1956 provided that all Civil Service retirees who combined time in military service and civil service employment for computation of civil service annuities must, at age 62, accept a recomputation of their annuities, deleting all years of military service since 1956, thus inadvertently creating an undeserved hardship for these veterans, a provision known as "Catch-62"; and

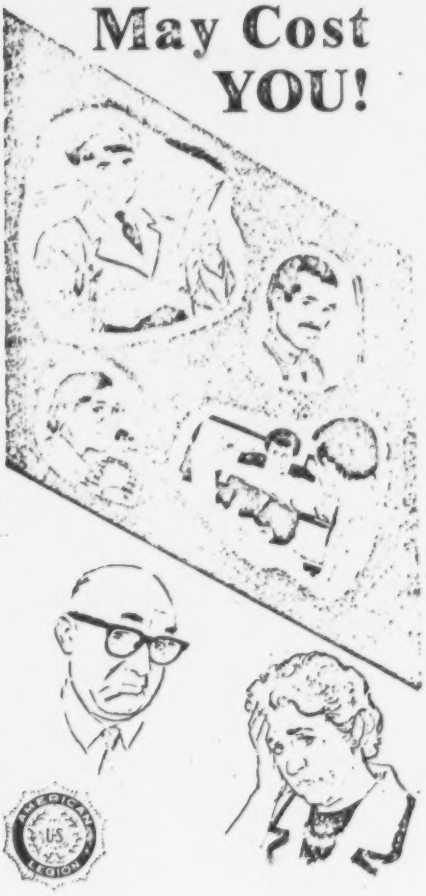
WHEREAS, The intent of the law in 1956 was to provide those who served in the military with a Social Security benefit to assist them in their retirement years, but the result has been the reverse for many who were employed by the United States government; and

WHEREAS, By present law the reductions become effective at age 62 even though these retirees may not be receiving Social Security payments for various reasons, and even when Social Security benefits are received, the annuity losses are often far greater than any Social Security payments, with some veterans retiring in 1980 subject to more than a 50 percent loss of annuity, a loss which increases for each year of military service since 1956; and

WHEREAS, The Report of the President's Commission on Military Compensation on April 10, 1978, urged the Administration and the Congress to expeditiously resolve, "the commonly described 'Catch-62' problem," and Congress has passed legislation to correct the situation for veterans in selected government agencies; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Honolulu, Hawaii, September 1, 2, 3, 1981, that The American Legion seek legislation to eliminate the inequities now contained in PL 84-881, and known as "Catch-62", and permit present and former civilian employees of the United States government to receive civil service annuity credit for retirement purposes for all their periods of service to the United States (federal government, uniformed services and District of Columbia government), regardless of eligibility for Social Security benefits.

"CATCH–62" May Cost YOU!



If You Work For The Federal Government –

- Time served in the military may be included in the number of years to be counted for government retirement.

However

- If military service has been long enough to qualify for military retired pay and you want to combine all your federal service for a civil service annuity, military retired pay must be waived. If military retired pay is retained, only the years of civil service employment can be counted for a separate civil service annuity.

BUT –

- At age 62, all civil service retirees with military service included in the years used in calculation of civil service annuities who are entitled to Social Security must have their annuities recomputed, *omitting all credit for military service after 1956.*

What This Means To Veteran/Federal Retirees

On the average, annuitants lost a little more than 3 percent of their pre-62 annuities for each year after 1956 as a result of the recomputations. These reductions in civil service annuities are made even though the retiree may not receive any Social Security payments because he is employed. At the time a deceased civil service annuitant would have become 62, his widow's survivor benefit is also reduced in the same proportion. Even when Social Security is paid, it is, in many cases, much less than the annuity loss.

Result Intended

The legislative history of Public Law 84-881 which established "CATCH-62" (from the novel *Catch 22* by Joseph Heller which can be summarized with the familiar phrase: "You're damned if you do and damned if you don't") shows that the hardship thus imposed was not intended by Congress.

Congress intended to provide a "portable" Social Security benefit for military service insufficient for military retirement and additional retirement income for the relatively low paid military retiree.

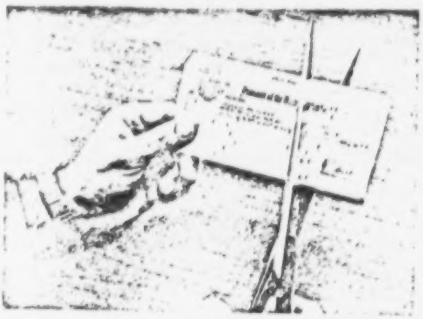
The "CATCH-62" hardship for veterans in the civil service and postal service was not foreseen.

The government is opposing any change in the law since there are savings in retirement annuities paid because of these recomputations - savings which increase every year as the number of veteran/federal retirements with military service after 1956 increases, but with consequently increased hardships on these affected retirees.

Veterans Inequitably Affected

Only military service covered by Social Security is penalized. Temporary civil service and postal service employees are covered by Social Security. However, after they acquire permanent status, the time spent in temporary status may be included in computing their federal annuities, and they also retain Social Security credits for their temporary employment.

More than 70 percent of all civil service annuitants are, or will become entitled to Social Security by working in covered employment before, during, or after their civil service employment.



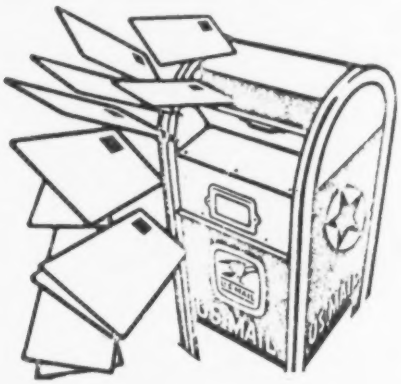
A veteran with 5 years' military service after 1956 and 25 years' civil service will lose about 17 percent of his annuity at age 62 if he is entitled to Social Security. However, a former temporary civil service or postal service employee with 5 years' Social Security covered employment and 25 years' permanent employment, who is entitled to Social Security, has no annuity reduction at age 62.

There are approximately 350,000 former temporary employees in the civil service and postal service and about 1,000,000 veterans - 345,000 are Vietnam era veterans - with military service after 1956. Most of them will eventually qualify for

Social Security and take substantial annuity reductions ate age 62 or later.

Furthermore, some federal agencies have obtained exemptions to "CATCH-62" for some or all of their employees who are veterans. The policy should be the same for all.

The "CATCH-62" law, PL 84-881, unfairly discriminates against veterans and should be amended.



What To Do —

Voice your support of S-46 and HR-116.

Write your Senators and Representative and urge they contact the appropriate committees to urge hearings on these bills to correct "CATCH-62" and that when the bills come before the full Congress, they approve these measures. This injustice has gone uncorrected too long. American veterans, including those who work for the federal government after military service, too often bear the brunt of Congressional and Administration efforts to curtail expenditures.

Here are the addresses and appropriate committees for specific reference in your letters:

The Honorable _____
United States Senate
Washington, D.C. 20510

(Write both Senators from your state. Urge hearings on S-46 by the Committee on Governmental Affairs.)

The Honorable _____
U.S. House of Representatives
Washington, D.C. 20515

(Urge hearings on HR-116 by the Committee on Post Office and Civil Service.)

Let Your Co-Workers And Fellow Veterans Know About This

Many veterans working for the federal government are completely unaware of "CATCH-62" and how it will affect their retirement. Let them know, and also how The American Legion is working to correct this injustice and of the many other Legion programs. We won the battle to preserve veteran's preference. We need the voice of every concerned veteran to maintain our vigilance. Show how their membership will strengthen the Legion's efforts.

National Economic Commission
The American Legion
1608 K Street, N. W.
Washington, D. C. 20006

Pub. No. 75-002

The Economic Commission has been informed that there is no chance, in the present emphasis on tax cuts, that S-46 and HR-116 will be given committee hearings during this session of Congress. The problem, however, still exists, and you may use this material to write your Congressional representatives and urge their consideration of this issue.

American Postal Workers Union, AFL-CIO
817 14TH STREET, N. W., WASHINGTON, D. C. 20005

STATEMENT OF THE
AMERICAN POSTAL WORKERS UNION (AFL-CIO)
IN SUPPORT OF S.46
BEFORE THE
SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE & GENERAL SERVICES
OF THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATE SENATE

Mr. Chairman and Members of the Committee:

We speak in behalf of 305,000 postal employees for whom we are the Exclusive National Representatives for labor-management relations and collective bargaining with the U.S. Postal Service. Our membership is employed in post offices in all 50 states, the District of Columbia, Pureto Rico, Virgin Islands and Guam. We are an industrial union representing clerks, maintenance and motor vehicle employees, postal data centers and the mail equipment shop.

We appreciate this opportunity to present the views of our labor union concerning S.46, which is before your Committee and proposes "To amend Title 5 of the United States Code to permit present and former civilian employees of the Government to receive civil service annuity credit for retirement purposes for periods of military service to the United States as was covered by Social Security, regardless of eligibility for social security benefits."

The American Postal Workers Union has thousands of members who performed military service after December, 1956, subsequently became employed by the Postal Service and have expected using their military service time as a credit towards Civil Service retirement annuity. However, because of Public Law 84-881 their rights to a credited and earned annuity have been severly compromised by a so-called "Catch-62" no win situation.

In 1955, Joseph Heller wrote a novel titled "Catch-22" meaning a bad situation from which there is no escape. A man or woman who served in the U.S. Military after 1956 and subsequently uses his or her military time as part of a Civil Service retirement computation will be in a regressive "Catch-62" situation if eligible for a social security pension at age 62 or later.

This unfair dilemma for the postal or federal employee who is a military veteran (and an estimated 70% are) can also be characterized by that familiar phrase "you're damned if you do and damned if you don't". The legislative history of Public Law 84-881 which established "Catch-62" shows that the hardship thus imposed was not intended by Congress.

Congress did intend to provide a "portable" Social Security benefit for military service which was insufficient for military retirement and provide additional income for the relatively low paid military retirees.

Unfortunately, neither the Congress, veteran organizations, federal employee organizations nor the veteran could anticipate the irreparable harm and mischief Public Law 84-881 would inflict on military veterans employed by the Government and their subsequent Civil Service retirement annuities.

The unintended inequity has come to be characterized as "Catch-62" in which the "catch" or dilemma comes from the requirement in Public Law 84-881 that at age 62 or thereafter most civil service retirees who are veterans lose annuity credit for their military service when they are or later become entitled to Social Security. All Civil Service and Postal Service retirees who are veterans and have combined their military service and civil service for calculation of their civil service annuities, when their social security benefits are due in any part to military ser-

vice, must accept a recomputation of their annuities, omitting all credit for their military service after 1956.

These annuity reductions take place even though the retiree may not receive social security payments because he is working or would prefer to delay receiving them for higher payments at age 65.

Even when social security is received, the annuity losses are frequently far greater than the social security payments. The annuity loss usually averages a little over 3 percent for each year of military service after 1956.

Except for the Catch-62 situation, all social security covered employment, government and private, is credited for both social security and the employer's retirement plan.

In order to qualify for a civil service combined annuity, a veteran entitled to military retired pay must waive all rights to it and accept only the annuity. There is no double credit for the military service; it is counted only for civil service retirement.

Military retirees who do not enter the civil service receive both their full retired pay and social security payments based upon the same periods of military service.

Approximately 45 percent of the 2.9 million civil service and postal service employees have had some military service. Nearly one million, including 345,000 Vietnam veterans, have had service after 1956 and are subject to Catch-62. Only 14 percent of these veterans are military retirees, but all will suffer from Catch-62 when they become eligible for social security.

At present, federal civil service retirees who have had no military service after 1956 do not suffer annuity reductions at age 62 if they are entitled to social security (or at any later age if they become so entitled).

Unlike the all-military careerist or the all-civil service careerist, the Catch-62 victim is denied retirement income after 62 based on all his government service just because he transferred from military to civil service.

Civil Service annuitants with military service who are reserve retirees under Chapter 67, Title 10 of the U.S. Code do not have to waive reserve retired pay to include their years of active military service in the computation of their annuities prior to age 62. If they are eligible for Social Security at age 62, their annuities are reduced by Catch-62 just as are the annuities of all others credited with military service after 1956. However, their reserve retired pay based on both active and reserve duty continues unchanged. If they are not entitled to social security, their active military service continues to be credited for both reserve and civil service retirement.

The present law does not penalize veterans who are not eligible for Social Security, even if they had military service after 1956. But if the veteran, through additional social security covered employment, does complete his coverage to the required 40 quarters, his civil service annuity is reduced by denial of credit for his military service subsequent to 1956.

The unfairness of the present law and the unevenness of its application is illustrated in the following table:

Annual Incomes at Age 62 for Average Civil Servant
Who Retired at Age 55 and is Entitled to Social Security
--(All Veterans Subject to Catch-62)--

					Veteran W/20 Yrs. Military Service	
	Non-veteran W/Min. Soc. Sec. Income	Veteran W/3 Yrs. Mil. Svc.	Veteran W/10 Yrs. Mil. Svc.	Non-veteran W/20 Yrs. Soc. Sec. Coverage	Combined Annuity	Separate Annuities
Annuity	$11,400	$10,180	$7,350	$11,400	$4,400	$3,200
Soc. Sec.*	1,900	1,900	1,900	2,900	2,900	2,900
Mil. Ret.	0	0	0	0	0	6,100
Total	13,300	12,080	9,250	14,300	7,300	12,200

*Typical low-level social security entitlements of civil annuitants and 20-year military retirees (worker only).

Note that the non-veteran annuitant entitled to social security, as most are, is better off than the veteran after age 62. Repeal of Catch-62 will only bring the veteran up to the income of the non-veteran, not above it.

Obviously, waiving military retired pay for a combined annuity is not an attractive option for most military retirees with 10 or more years of military service after 1956. The alternative, unfortunately, is to keep a low military retired pay and accept a very low civil service annuity based on the low multiples for the first 10 years of civil service. This is contrary to the basic government policy that retirement be based on all government service and the higher income attained at the end of one's career.

The most unfortunate veterans are those who have long periods of military service (up to 19 years) but did not qualify for military retirement before entering the civil service. Eighty-six percent of the veterans in the civil service subject to Catch-62 are not military retirees. They have no choice but to count all their government service in their annuity computations and suffer the Catch-62 reductions. Their credits for social security are usually based on low incomes in the military service, and their social security entitlements at age 62 are very small.

If he/she is working again, the veteran may not actually receive the social security benefits for which he has been penalized. He may not reinstate military retired pay for the years in question, and his civil service annuity will, as a further inquiry, be cut off from the top years (at 2 percent per year), leaving him only the lowest multiples (1.5 and 1.7 percent, respectively, for the first and second 5 years).

Many civil service retirees with military service were forced to take a combined retirement to qualify for immediate retirement income. Some military retirees had to take a combined civil service retiremrnt to qualify their families for adequate survivor benefits. The military Survivor Benefit Plan was not provided to the uniformed services until September 21, 1972.

A widow's benefit (the Survivor's Benefit) is calculated at 55 percent of the annuity of her sponsor. If he/she dies before reaching the 62nd birthday, on the date the annuitant would have reached it, the spouse's benefit is reduced to 55 percent of what his reduced annuity would have been at 62 had he lived. This takes place although her dead husband paid annuity reductions for an unreduced benefit. There are further

inequities. Some agencies have obtained exceptions for all or part of their employees who are veterans. The Foreign Service obtained a 20-year exemption for veterans under its retirement system and will penalize only those with military service after 1976. The Environmental Protection Agency, the Federal Water Pollution Control Administration and the consumer Product Safety Commission obtained exemptions for many of their original employees when those agencies were created. In fairness, the policy should be the same for all.

To make the situation even more unfair, enforcement of PL 84-881 is not consistent and many individuals to whom Catch-62 should apply are not identified and their annuities are not reduced at age 62. Those who have waived military retired pay to include their military service in annuity computations are more readily identified and their annuities reduced. Many thousands of annuitants with less than 20 years of military service counted in their annuity computations escape the legally required reductions at age 62 entirely. They are particularly likely to escape detection when they do not apply for social security or when their military service alone is insufficient to qualify them for social security and is combined with other employment subsequent to civil service retirement to qualify for social security benefits.

The President's Commission on Military Compensation urged the Administration and the Congress on April 10, 1978 to resolve the Catch-62 problem expeditiously. Bills for this purpose were introduced in the Senate and the House in both the 95th and 96th Congresses. No action was taken by the 95th Congress because the Administration failed to provide a cost estimate in time. During the 96th Congress the Administration did not respond to repeated Committee requests for its position on the bills, and no hearings were held. In the 97th Congress Senator Strom Thurmond (SC-R) has reintroduced his bill in the Senate, S.46; and Rep. Charles E. Bennett (FL-3-D) has reintroduced his, HR116, in the House.

The previous bills had 11 co-sponsors in the Senate and 26 co-sponsors in the House. The current bills are expected to have more. These bills have the support of 38 military, veteran and civil service organizations.

The President has now proposed that federal annuitants who are also entitled to social security from any employment before, during, or after their civil service careers have their social security payments reduced substantially. Should this proposal become law, the Catch-62 victim who now has his annuity reduced because of social security entitlements will also have his social security reduced because he is entitled to an annuity.

The "Catch-62" Public Law 84-881 unfairly discriminates against postal and federal employees who are military veterans and should be amended.

This injustice has gone uncorrected too long. American veterans, including those who work for the federal government after military service, too often bear the brunt of Congressional and Administration efforts to curtail expenditures. Many (probably most) veterans working in the Postal Service are completely unaware of "Catch-62" and how it will adversely affect their retirement.

The American Postal Workers Union is grateful for this opportunity to present our views. Passage of this bill will correct an inequity that should never have existed and the American Postal Workers Union urges immediate and favorable action by the Congress. Thank you Chairman Stevens for holding these important hearings.

DAV

Motto: "If I cannot speak good of my comrade, I will not speak ill of him."

DISABLED AMERICAN VETERANS

NATIONAL SERVICE and LEGISLATIVE HEADQUARTERS
807 MAINE AVENUE, S.W.
WASHINGTON, D.C. 20024
(202) 554-3501

May 17, 1982

Honorable Ted Stevens
Chairman - Subcommittee on Civil Service,
Post Office & General Services of the
Senate Governmental Affairs Committee
57 Capitol Hill Annex
Washington, D.C. 20510

Dear Senator Stevens:'

I am writing to you in reference to the May 18, 1982 hearing you have scheduled on S. 46.

The DAV supports the enactment of S. 46 and respectfully requests this letter be made a part of the May 18, 1982 hearing record.

As you know, S. 46, introduced by Senator Thurmond on January 5, 1981, proposes -- "to amend Title 5, USC to permit present and former civilian employees of the government to receive civil service annuity credit for retirement purposes for periods of military service to the United States as was covered by Social Security, regardless of eligibility for Social Security benefits."

The inequity S. 46 proposes to eliminate, commonly referred to as "Catch-62," was created by the enactment of Public Law 84-881. This provision of existing law requires all Civil Service retirees who become entitled to Social Security benefits at age 62 and who have already combined their military service and Civil Service for calculation of their Civil Service annuities to accept (without choice) a recomputation of their annuities.

Recomputation of a retiree's annuity in such cases requires the omission, in accordance with Public Law 84-881, of credit for military service after 1956. As a result, in most instances, the annuity lost to the retiree is far greater than the gain in Social Security benefits. And, ironically, annuity reductions take place even though the individual may not receive Social Security payments. The retiree need only become entitled to Social Security benefits in order to have recomputation thrust upon him.

This injustice is further compounded when the retiree dies before age 62. In this situation the retiree's surviving spouse must accept, again without choice, a recomputation of the survivor's benefit on the date the retiree would have been age 62.

It is true there are a few retirees who have avoided the "Catch-62" inequity due to their employment in certain federal agencies. However, the DAV believes that all similarly situated retirees should be treated in a like manner.

Therefore, on behalf of the more than 715,000 members of the Disabled American Veterans I strongly urge you and the members of this distinguished Subcommittee to favorably act upon this legislation.

Sincerely yours,

John F. Heilman

JOHN F. HEILMAN
National Legislative Director

JFH:ar

THE NON-COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

"STRENGTH IN UNITY"

STATEMENT OF

C.A. (MACK) MCKINNEY
Sergeant Major USMC Retired
Sr. Vice President, Government Affairs
Non Commissioned Officers Association of the USA (NCOA)

Submitted to

Subcommittee on Civil Service, Post Office and General Services
Committee on Governmental Affairs
U.S. SENATE
97th CONGRESS, SECOND SESSION

MR. CHAIRMAN. The Non Commissioned Officers Association of the USA (NCOA) represents a membership of more than 250,000 noncommissioned and petty officers of the U.S. Armed Forces; on active duty, retired, reserve, guard, or in a veteran's status.

The Association is quite concerned that an existing law, PL 84-881, places an unfair financial penalty on certain retired civil service personnel who use prior military service to calculate retired civil service pay. At age 62, these men and women must forfeit part of their pay based on prior military service subsequent to 1956, the year military personnel were placed under the social security program.

The rationale behind the law may have been the entitlement of these individuals to social security benefits at age 62. However, it appears that in their exuberance to prevent one group from greater financial gain, the lawmakers forgot others in the civil service program who had no military service but also were entitled to social security benefits.

PL 84-881 should be repealed simply because it is inequitable and discriminates against those who served in the military. It, particularly, is unfair to those individuals who served 20 or more years in the U.S. Armed Forces and received all or part of retired military pay prior to forfeiting that pay for a civil service annuity.[1]

Retired military pay is reduced compensation for reduced services. Once a service member begins to earn that pay, he or she is subject to many laws and regulations. Among them are: recall to active duty in the event of a national emergency, continued obedience to applicable provisions of the Uniform Code of Military Justice, (UCMJ) certain restrictions on employment, and forfeiture of part of retired military pay if employed by the federal government.

1— Service members who are entitled to retired military pay must in many cases forfeit part of that pay if they are employed by the federal government. Therefore, these servicemembers not only lose part of their retired military pay while working in civil service, but forfeit a major part of their civil service annuity, based on military service, at age 62.

One would believe that forfeiting the receipt of retired military pay automatically excludes the retired servicemember from these lawful and regulatory provisions, but this is not the case. The individual who forfeits retired military pay for retired civil service pay— then loses that period of military service for pay purposes— continues to be subject to recall to military duty and obedience to the UCMJ.

NCOA has asked the National Association for Uniformed Services (NAUS) to represent its position before the Subcommittee today. Between NAUS, NCOA, and the other 37 organizations favoring S. 46, there are sufficient reasons offered that certainly make a positive case for repeal of "Catch-62." NCOA believes that all of the arguments developed by these groups are valid and that this Subcommittee should take appropriate action now to rectify the situation.

NCOA appreciates the opportunity to participate in this hearing and fully endorses the passage of S. 46.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

DONALD H. SCHWAB, DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE AND GENERAL SERVICES
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

WITH RESPECT TO THE PENALTY FOR HAVING SERVED IN
OUR ARMED FORCES VISITED UPON FEDERAL CIVILIAN
RETIREES KNOWN COLLOQUIALLY AS "CATCH-62"

WASHINGTON, D. C. MAY 18, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the privilege of appearing before this distinguished Subcommittee to present the views of the Veterans of Foreign Wars of the United States.

My name is Donald H. Schwab, and it is my privilege to serve the more than 1.9 million men and women of the Veterans of Foreign Wars as their National Legislative Director.

Mr. Chairman, the legislation under consideration, S. 46, was introduced by the Honorable Strom Thurmond, Chairman of the Senate Judiciary Committee, on January 5, 1981. The bill, now with 17 cosponsors, would amend Title 5 of the United States Code to permit present and former civilian employees of the government to receive civil service annuity credit for retirement purposes for periods

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of military service to the United States as was covered by social security, regardless of eligibility for social security benefits.

Briefly, Mr. Chairman, the inequity commonly referred to as "Catch-62" requires that commencing at age 62, Federal civilian retirees who are veterans with service in our Armed Forces any time after December 31, 1956, and who combine their military service and Federal civilian service for computation of their civil service retirement annuities, when eligible for social security benefits due in any part to service in our Armed Forces, must involuntarily accept a recomputation of their annuities omitting all credit for their active duty service after 1956. This inequity is the result of section 409 of Public Law 84-881, the "Servicemen's and Veterans' Survivor Benefits Act," approved August 1, 1956, and codified as 5 USC 8332(j).

When Congress passed legislation which became Public Law 84-881, the intent was to provide all citizens with social security coverage while in the Armed Forces and increase their income in retirement. However, the law inadvertently established a punitive retirement system for Armed Forces veterans who subsequently retire from the Federal civilian service upon reaching age 62 if they also qualify for social security benefits. To quote Senator Thurmond upon introduction of his remedial legislation, " . . . the Civil Service Commission (CSC), now known as the Office of Personnel Management (OPM), objected to veterans receiving credit for both social security and their annuity for the same years of service. The Commission took the position that this would be a double credit in violation of laws which preclude crediting service to two retirement systems at the same time. The fallacy in this objection is that the social security system is not a retirement system, and was never so intended." Making the Commission's position, which still

stands today, even more untenable, the Foreign Service, the Environmental Protection Agency, the Federal Water Pollution Control Administration and the Consumer Product Safety Commission all received exceptions from the "Catch-62" provision for all or part of their veteran employees.

Mr. Chairman, many people believe that the inequity of "Catch-62" applies only to Armed Forces retirees who subsequently also retire from the Federal civilian service. Such is not the case. This grossly unfair treatment applies to anyone with any length of service in the Armed Forces after 1956. The annuity reduction averages slightly over three percent for each year of active duty. Thus, a Vietnam veteran who served two years on active duty and upon separation decided to become a career Federal civilian employee will, in retirement, at age 62 suffer a reduction in his annuity of more than six percent if entitled to social security. Had he served four years, his reduction in retirement would exceed 12 percent. A strange lesson in logic, indeed, when the system will financially penalize a man in retirement for having faced the enemy in combat at the behest of that same government. This annuity reduction takes place regardless of whether or not the veteran draws social security payments and he does not have the choice of deferring receipt of social security benefits until age 65.

Present law does not penalize veterans who do not accumulate 40 quarters of coverage under social security, even if some quarters were acquired through active duty after 1956. However, if through other employment the veteran acquires the necessary 40 quarters, "Catch-62" will apply.

Mr. Chairman, our current VFW Resolution No. 695, entitled "Support S. 46 and H.R. 116," passed by the voting delegates to our last National Convention is appended to my testimony.

Senator Thurmond has introduced legislation similar to S. 46 in previous Congresses to no avail, Mr. Chairman. It is the hope of our members, many of whom will be subjected to "Catch-62," that the instant legislation will be advanced expeditiously to rectify this gross inequity contained in Public Law 84-881.

This concludes my testimony, Mr. Chairman, and I will be happy to respond to any questions you may have.

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